中國基礎資源控股有限公司

China Primary Resources Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8117)

ANNUAL REPORT 2008

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Contents

Expressed in Hong Kong dollars ("HK$")

\# *The English translations of Chinese names or words in this annual report are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words*

Board of directors

Executive Directors

Ms. Ma Zheng *(Chairman)*
Mr. Wong Pui Yiu

Independent Non-Executive Directors

Mr. Wan Tze Fan Terence
Mr. Liu Weichang
Mr. Chung Chin Keung

Registered office, head office and principal place of business

Registered office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business

Suite 1415
Ocean Centre
5 Canton Road
Tsim Sha Tsui
Kowloon
Hong Kong

Company secretary

Mr. Wong Chun Sing *FCPA, FCCA*

Compliance officer

Mr. Wong Pui Yiu

Qualified accountant

Mr. Wong Chun Sing *FCPA, FCCA*

Audit committee

Mr. Wan Tze Fan Terence *(Chairman)*
Mr. Liu Weichang
Mr. Chung Chin Keung

Remuneration committee

Mr. Wan Tze Fan Terence *(Chairman)*
Mr. Liu Weichang
Mr. Chung Chin Keung

Authorised representatives

Ms. Ma Zheng
Mr. Wong Pui Yiu

Principal bankers

The Hongkong and Shanghai Banking Corporation Limited
Wing Hang Bank, Limited

Share registrar and transfer office

Butterfield Fulcrum Group (Cayman) Ltd.
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman
Cayman Islands

Stock code

8117

Cayman Islands assistant secretary

Codan Trust Company (Cayman) Limited

Auditor

Shu Lun Pan Horwath Hong Kong CPA Limited
Certified Public Accountants
20th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Hong Kong share registrar

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Chairman's Statement

It is my pleasure to present the annual results of China Primary Resources Holdings Limited (the "Company") together with its subsidiaries (collectively referred to as the "Group"), for the year ended 31 December 2008.

2008 is a difficult year for enterprises throughout the world. The financial tsunami broke out in the second half of the year 2008. Like most of the other enterprises, the Group's performance was affected by the drastic economic down turn. However, with the strong financial background of the Company and an effective management team, the Group is able to maintain its core business and at the same time, looking for new business opportunities.

The business production and sale of fibre glass reinforced plastic pipes ("FRP pipes") and polyethylene pipes ("PE pipes") and sale of composite materials was still one of the core businesses of the Group in the year 2008. I am pleased to announce that substantial increase in turnover of over 128.6% was noted in this business sector. The Group will continue to closely monitor the pipes business and such business will continue to contribute substantial business turnover to the Group.

For the mining sector, commodities' prices include iron and silver in the second half of 2008 decreased a lot when compared to 2007 and early 2008. As a result, the Group recorded significant provisions for impairment losses on the mining rights for the year ended 31 December 2008. In view of the current economic condition and relatively low commodities' prices, the progress of the commencement of the mining operations, both in Yichang City ("Yichang") and the independent sovereign state of Mongolia ("Mongolia"), are adversely affected. The management will carefully monitor the mining operations in the benefit of the Company and its shareholders since mining is the main focus of the Group as mentioned before.

In the year 2008, we had made the following progresses:

A. Completion on the acquisition of a mining company in Mongolia (the "Mining Company")

As mentioned in the quarterly reports in 2008, the acquisition of the Mining Company was completed on 23 April 2008. The Mining Company holds a mining licence which covers an aggregate area of 173 hectares in the mining area located at Mungun-Undur, Khentii Province (the "Mungun Project"). The Mungun Project's major deposit is high grade silver and low grade lead and zinc. The mineral deposit is estimated at a total of 2.8Mt with average group of 79 g/t Ag (Silver) and additional metal credits with average grades of 1.9% Pb (lead), 1.4% Zn (zinc) and 0.2% Sn (tin). The metal credits contribute to an equivalent silver grade of 352 g/t Ag. The details of which are stated in our announcement and circular dated 17 March 2008 and 7 April 2008 respectively.

B. Other mining investment opportunities

The Board of Directors has been seeking for new business investment opportunities in relation to the mining business. The economic condition was unstable in 2008 so no significant new investments were made by the Group in 2008. In view of the current economic condition, the management will take extra care when looking for any new investment opportunities.

As a result of the above, the Group recorded a loss before income tax of approximately HK$1,362,233,000 for the year ended 31 December 2008. I believe that the loss had already reflected most of the adverse effects on the Group caused by the sudden economic down turn.

As the Chairman of the Company, I believe that if we could leverage on our strategy partners' business connection and technology, and stick to this business development route, the Group could develop into a leading mining and resources company in the near future. In this respect, I can assure you that all the team members of the Group will put all their best efforts to increase our shareholders' return in the future.

Appreciation

On behalf of the Board of Directors, I would like to express my sincere gratitude to our shareholders, fellow directors, staff, customers and business partners for their ongoing support and contribution, especially during the impact of the financial tsunami. 2009 is obviously another challenging year but, with the strong background and contribution from all of you, I believe the Group can overcome the various crisis resulting from the financial tsunami.

MA Zheng
Chairman

Hong Kong, 24 March 2009

Operation review

The financial tsunami broke out in the second half of the year 2008 had great impact on the economy of the whole world, including the People's Republic of China (the "PRC") and Hong Kong. The performance and financial position of a lot of business corporations are greatly affected. The Group, however, is still maintaining a competitive position in the market with effective cost control and cash management.

During the year under review, the Group continued to engage in (i) manufacture and sale of PE/FRP pipes; (ii) mining businesses; and (iii) property development through its interests in associates, and operates primarily in the markets of the PRC and Mongolia.

As stated in our 2007 annual report, the Group focuses on the development and integration of the mining business. On 23 April 2008, the acquisition of the Mining Company in Mongolia was completed. However, the current economic condition has already affected the progress to commence the mining business. The management will carefully monitor the mining business in the benefit of the Company.

Financial review

For the year ended 31 December 2008, the Group recorded a turnover of approximately HK$72,770,000, which represented an increase of 128.6% when compared with last year's turnover of approximately HK$31,826,000. The turnover in 2008 was mainly attributed to the trading and production of FRP pipes and PE pipes and trading of composite materials. This shows the management are in line with their plans in developing the FRP pipes and PE pipes business.

During the year under review, the audited loss before income tax was approximately HK$1,362,233,000 while the audited profit before income tax of last year was approximately HK$1,115,386,000. The loss attributable to equity holders of the Company was approximately HK$1,243,920,000 (2007: profit of HK$1,115,983,000). The significant loss in 2008 was mainly due to the significant provision for impairment losses on the mining rights and significant share of losses of associates of the Group.

In the current economic environment, the Board will continue to adopt the stringent cost control and maintain a low and effective overheads structure and prudently utilise the corporate resources to create wealth for the shareholders.

Business outlook and prospects

The production of the PE pipes and FRP pipes was performing well in the year 2008. The Board of directors believe that this business segment will continue to grow and perform well even during the current unfavourable economic climate. The Group is now building an effective sales team to explore new market and find more customers for the pipes.

On the other hand, the Board's other important tasks are to integrate the mining business and to explore more business opportunities in mining investment. The Yichang and Mongolia mining businesses are just the beginning, the mining business will be our Group's main areas to develop in the future, whilst the Group will continue in keeping abreast of its core business.

Liquidity and financial resources

As at 31 December 2008, the net assets of the Group are approximately HK$1,183,104,000 (2007: approximately HK$2,084,581,000) while its total assets were approximately HK$1,678,232,000 (2007: approximately HK$2,515,997,000) including cash and bank balances of approximately HK$99,361,000 (2007: approximately HK$294,063,000). With a current ratio of 6.9, the Group is in a financially liquid position and able to finance its ongoing operation.

Funding activities during the year

During the year, the Company did not have any fund raising activities.

Gearing ratio

As at 31 December 2008, current assets of the Group included cash of approximately HK$34,984,000 and RMB56,856,000 while current liabilities stood at approximately HK$24,002,000. The Group had long-term loan of approximately HK$288,308,000 as of 31 December 2008 and shareholders' funds amounted to approximately HK$1,144,763,000. In this regard, the Group had a net cash position and a gearing ratio of approximately 25.2% (long term loan to equity attributable to equity holders of the Company) as of 31 December 2008.

Exposure to fluctuations in exchange rates

Sales and payment of the Group are denominated in Hong Kong dollars and Renminbi ("RMB"). The Group's cash and bank deposit were mainly denominated in Hong Kong dollars and RMB, and the business is mainly operated in the PRC. The only foreign currency exposure comes mainly from the funds movement between Hong Kong and the PRC. With a comparatively small fluctuation in exchange rates between Hong Kong dollars and RMB, the Group's foreign currency exposure was minimal for the year under review, and no hedging or other alternatives had been implemented for foreign currency exposure. However, the Group will continue to monitor closely the exchange rate and will enter into hedging arrangements in the future if necessary.

Charge on group assets and contingent liabilities

As at 31 December 2008, the Group did not have any significant contingent liabilities and no assets of the Group were pledged (2007: Nil).

Segment information

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

Capital structure

The shares of the Company were listed on the GEM of the Stock Exchange on 13 December 2001. There has been no change in the capital structure of the Company since the Company's listing on that date except for, on 31 October 2007, the creation and issuance of the non-listed preferred shares ("Preferred Shares") was completed and the Preferred Shares are held by Great Ocean Real Estate Limited ("GORE"). Based on the initial conversion rate of 1:1, GORE will be entitled to convert in full the Preferred Shares into 2,802,235,294 Shares of the Company.

Material acquisition and disposals of subsidiaries and affiliated companies/future plans for material investments

On 17 March 2008, the Company announced that on 11 March 2008, the Company and China Review Holdings (Group) Limited (the "Vendor") entered into an agreement pursuant to which the Company conditionally agreed to purchase and the Vendor conditionally agreed to sell the 100% of the issued share capital of Zhong Ping Resources Holdings Limited ("Zhong Ping") (the "Acquisition"), which, through ARIA LLC, its non wholly-owned subsidiary incorporated in Mongolia holds the majority interest of the mining rights in respect of the project located at Mungun-Undur, Khentii Province, Mongolia, for a total consideration of HK$148,381,000. The consideration of which was satisfied as to (i) HK$40,080,000 by cash and (ii) HK$108,301,000 by the issue of the Shares of the Company on the date of completion. The Acquisition constituted a discloseable transaction of the Company under Chapter 19 of the GEM Listing Rules. Further details of the Acquisition and other information as required under the GEM Listing Rules were disclosed in the circular dated 7 April 2008. The Acquisition was completed on 23 April 2008.

Save as disclosed above, there were no material acquisition or disposal of subsidiaries and affiliated companies during the year.

Significant investments

Save as disclosed above, the Group had no other significant investments for the year ended 31 December 2008 except the Acquisition mentioned above.

Employee information

As at 31 December 2008, the Group has 5 full-time employees working in Hong Kong and 52 full-time employees working in the PRC respectively. The total of employees' remuneration, for the year under review amounted to approximately HK$49,435,000. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Directors

Ms. Ma Zheng, aged 42

Chairman and Executive Director

Ms. Ma joined the Group in February 2004. She is currently the general manager of Shenzhen Zhi Xin Da Investment Development Co. Limited (深圳智信達投資發展有限公司) which is a private investment and development company. Ms. Ma has over 19 years of experience in international trade, electronic industry and corporation management. She graduated from Wuhan University (武漢大學) majoring in construction structure engineering.

Mr. Wong Pui Yiu, aged 46

Executive Director

Mr. Wong joined the Group in February 2008. He has over 8 years of experience in business administration and corporate management. He is currently the general manager of Smart Honest Group Limited which has been a distributor of semiconductors since 2004.

Mr. Wan Tze Fan Terence, aged 44

Independent Non-executive Director

Mr. Wan joined the Group in March 2004. Mr. Wan holds a bachelor degree in commerce and a master degree in business administration. Mr. Wan has years of experience in accounting and financial management. He had worked for international accounting firms and listed companies in Hong Kong. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and a Certified Practicing Accountants of CPA Australia. Currently, he is an executive director, financial controller and company secretary of Genesis Energy Holdings Limited, which is listed on the main board of The Stock Exchange of Hong Kong Limited.

Mr. Liu Weichang, aged 50

Independent Non-executive Director

Mr. Liu joined the Group in May 2005. Mr. Liu held a degree from Shenzhen University. He has over 25 years experience in the field of corporate management. Mr. Liu is the director and standing deputy general manager of two subsidiaries of a listed company in Hong Kong.

Mr. Chung Chin Keung, aged 41

Independent Non-executive Director

Mr. Chung joined the Group in February 2008. Mr. Chung holds a bachelor degree of Business Administration from the Hong Kong Baptist University and a master degree in Business Administration from Manchester Business School. Mr. Chung is a fellow member of The Association of Chartered Certified Accountants, a fellow member of The Hong Kong Institute of Certified Public Accountants, a fellow member of The Institute of Financial Consultants and an associate member of The Institute of Chartered Accountants in England and Wales. He has more than 16 years of experience in finance, accounting and management. Mr. Chung is currently the financial controller and company secretary of K.P.I. Company Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited. He is also currently an independent non-executive director of Soyo Group, Inc., a company listed on NASDAQ OTC, USA since 7 October 2005.

Senior management

Mr. Wong Chun Sing, Max, aged 38

Financial Controller and Company Secretary

Mr. Wong joined the Group in April 2008. Mr. Wong is a fellow member of The Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Wong has over 15 years of management experiences in the accounting and finance sector and he had worked for an international accounting firm, a listed company and securities and finance companies in Hong Kong.

(A) Corporate governance practices

The Company has applied the principles and requirements of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 15 of the GEM Listing Rules of the Stock Exchange, except for certain deviations as disclosed in this annual report. In the opinion of the Directors, the Company has met the code provisions set out in the CG Code.

The Company strives to attain and maintain high standards of corporate governance to enhance shareholder value and safeguard shareholder interests. The Company's corporate governance principles emphasise a quality Board, effective internal control and accountability to shareholders.

(B) Directors' securities transactions

The Company has adopted a code of conduct (the "Code") regarding securities transactions by Directors and relevant employees on terms no less than exacting than the required standard of dealings set out in the Rules 5.48 to 5.67 of the GEM Listing Rules. All Directors confirmed they had complied with the Code throughout the year.

(C) Board of directors

The Company is governed by a Board of Directors, which has the responsibility for leading and controlling of the Company. These directors are collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. More specifically, the Board formulates strategy, monitors its financial performance and maintains effective oversight over the management. Daily operations and administration are delegated to the management.

The Board includes (up to the approval date of this financial statements) the Chairman, one Executive Director, and three independent non-executive Directors, and their biographical details have been set out in the section of "Biographical Details of Directors and Senior Management".

There were 22 board meetings held during the year. The attendance of individual directors at the board meetings is set out below.

Board Member	Attendance
Executive Directors	
Ms. Ma Zheng, Chairman	22/22
Mr. Wong Pui Yiu (appointed on 1 February 2008)	19/22
Mr. Chiu Winerthan (resigned on 11 July 2008)	12/22
Independent Non-Executive Directors	
Mr. Wan Tze Fan Terence	8/22
Mr. Liu Weichang	9/22
Mr. Chung Chin Keung (appointed on 1 February 2008)	7/22
Mr. Gao Sheng Yu (retired on 28 April 2008)	3/22

For regular meeting, 14 days' notice (or shorter notice if there is no objection from the Directors) were given to all our Directors, and they are allowed freely to include other matters in the agenda of the regular board meeting. Company Secretary is required to attend the board meetings and will then draft the relevant minutes, and it will be finalised once the draft is circulated and approved by all Directors who have attended the meetings. All minutes are kept in the Hong Kong's principal place of business and are open for inspection by Directors.

During the year, there was no conflict of interest in any matters between the substantial shareholders and Director. In addition, the director, whom the Board considers to be having a conflict of interest, will be required to abstain from voting.

(D) Chairman and chief executive officer

For the year 2008, we still did not have an officer with the title of "Chief Executive Officer" (the "CEO"). The Code envisages that the management of the Board should rest on the Chairman, whereas the day-to-day management of the Company's business should rest on the CEO. Ms. Ma Zheng, the Chairman, is also the director of the Company's production plant in Yichang City. This constitutes a deviation of Code Provision A.2.1. The Board still holds the view that this arrangement is appropriate for the Company but we do not compromise accountability and independent decision making for this since we have an audit committee, all members of which are independent non-executive directors, to help to ensure the accountability and independence of Ms. Ma Zheng.

(E) Appointment and re-election of directors

According to the Articles of Association of the Company, which provided that (a) every director, including those appointed for a specific term, should be subjected to retirement by rotation at least once every three years; and (b) all directors appointed to fill casual vacancy should be subject to election by shareholders at the next following general meeting of the Company after their appointment.

(F) Independent non-executive directors

As at the approval date of this financial statements, the Company has three independent non-executive Directors, they are Mr. Wan Tze Fan Terence ("Mr. Wan"), Mr. Liu Weichang ("Mr. Liu") and Mr. Chung Chin Keung ("Mr. Chung"). Except for Mr. Chung who was appointed for a specific term of two years, the other two are not appointed for specific terms. This constitutes a deviation of Code Provision A.4.1 which requires that non-executive directors should be appointed for specific terms. However, they are all subject to retirement by rotation at least once every three years in accordance with the Company's Articles of Association. The Board has discussed and concluded that the current practice of appointing non-executive directors without specific terms but otherwise subject to retirement and re-election is fair and reasonable, and therefore will not change the terms of appointment of Mr. Wan and Mr. Liu.

(G) Remuneration of directors

The Board has established a remuneration committee with specific written terms of reference in compliance with the GEM Listing Rules. These terms of reference will be put on the Company's website once the site is ready for use, this constitutes a deviation of Code Provision B.1.4, however, once the website is constructed, we will comply with this code at once. These terms of reference were already reviewed by all Directors before they were adopted. The remuneration committee is now consisting only of the independent non-executive Directors, which include Mr. Wan, Mr. Liu and Mr. Chung (appointed on 1 February 2008). Mr. Wan is the chairman of the remuneration committee. The remuneration committee had held one meeting during 2008 and was attended by Mr. Wan, Mr. Liu and Mr. Gao Sheng Yu (retired on 28 April 2008). The role and function of the remuneration committee include determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration.

(H) Responsibilities of directors

The Board will make sure every newly appointed director to have necessary information for his proper understanding of the operations and business of the Group and that he will be fully aware of their responsibilities under the statute and common law, the GEM Listing Rules and other regulatory requirements and governance policies of the Company. The Directors will continually update themselves with legal and regulatory developments, business and market changes and the development of the Company so as to facilitate the discharge of their responsibilities.

(I) Nomination of directors

During the year under review, all new candidates were recommended by the Chairman of the Company. However, the determination of the candidate's appointment rests with the Board, and it is the practice of the Company to have at least 50 per cent. of the Board members, with at least one of independent non-executive director's attendance, to review and consider the application. This will ensure the involvement of the majority of the members of the Board, with the opinion of the independent non-executive director, in considering the candidate's application. The Board considers this practice is fair and reasonable, so no nomination committee was established during the year. In addition, the Board also made recommendations for the rotation of Directors for the forthcoming annual general meeting ("AGM"). On 1 February 2008, Mr. Wong Pui Yiu and Mr. Chung were respectively appointed as an executive director and an independent non-executive director of the Company. As the Board still believes the current practice of appointment of directors as proper and appropriate for the Company, it will not consider to set up a nomination committee which is not in compliance with the recommended best practices of the CG Code.

(J) Audit committee

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. These terms of reference will be put on the Company's website once the site is ready for use, this constitutes a deviation of Code Provision C.3.4, however, once the website is constructed, we will comply with this code at once. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises three members, Mr. Wan, Mr. Liu and Mr. Chung (appointed on 1 February 2008). All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Wan.

The audit committee held 4 meetings during the year under review. Details of attendance of the audit committee meetings are as follows:

Member	**Attendance**
Mr. Wan Tze Fan Terence	4/4
Mr. Liu Weichang	4/4
Mr. Chung Chin Keung	4/4
Mr. Gao Sheng Yu (retired on 28 April 2008)	0/4

The audit committee is satisfied with the findings of their review of the audit fees and audit process and has recommended to the Board the re-appointment of the existing auditor in 2009 at the forthcoming AGM.

The Group's 2008 annual report, 2008 quarterly reports and 2008 half-yearly report had been reviewed by the audit committee.

Directors' and Auditors' Responsibilities in respect of the Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2008.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the GEM Listing Rules and other regulatory requirements.

The management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

The statement of the external auditor of the Company about his reporting responsibilities on the financial statements is set out in the Independent auditor's report on pages 34 and 35.

(K) Auditor's remuneration

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions can lead to any potential material adverse effect on the Company. During the year under review, an amount of approximately HK$720,000 (2007: approximately HK$1,440,000) was charged to the Group's income statement for the year ended 31 December 2008 for fees payable to the external auditors. The amount in last year comprised non-audit service fee of HK$740,000.

(L) Internal control

It was known by the Directors of the Company that they have the overall responsibility for the Company's internal control, financial control and risk management and shall monitor its effectiveness from time to time. Therefore, the Company has already adopted a well-designed internal control system to safeguard the assets of the Company and the shareholders' investment and to ensure the reliability of financial reporting as well as compliance with the relevant requirement of GEM Listing Rules. Same as last year, the Company has engaged a professional firm to review the internal control system which cover compliance controls, financial controls, operational controls and risk management controls. They will report their findings and make recommendations relating to all the above mentioned areas to the Company, all these were addressed in their internal control report and will be presented by the Board to our Audit Committee for their reviews. The Board considers that the existing internal control system of the Group basically covers the current operating conditions of the Group. However, with sustained development of the enterprise and a continue increase in the management standard of the Group, the internal control system shall need continuous revision and improvement.

(M) Investor relations

The Company disclosed all necessary information to the shareholders in compliance with GEM Listing Rules. The Company also replied the enquires from shareholders upon their request.

The directors herein present their report and the audited financial statements for the year ended 31 December 2008.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 19 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

Results and appropriations

The results of the Group for the year ended 31 December 2008 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 36 to 119.

The Board do not recommend the payment of any dividend.

Share capital

Details of the movements in share capital of the Company during the year are set out in note 28 to the financial statements.

Reserves

Details of the movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 30 to the financial statements, respectively.

Distributable reserves

As at 31 December 2008, the Company had reserves available for distribution amounted to approximately HK$45,803,000 as calculated in accordance with the Companies Law (2001 Revision) of the Cayman Islands (2007: HK$45,167,000).

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands, which will oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 120.

Purchase, sale or redemption of securities

The Company had not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the year.

Directors

The directors of the Company during the year and up to the date of this annual report were as follows:

Executive Directors

Ms. Ma Zheng	
Mr. Wong Pui Yiu	(appointed on 1 February 2008)
Mr. Chiu Winerthan	(resigned on 11 July 2008)

Independent Non-Executive Directors

Mr. Wan Tze Fan Terence	
Mr. Liu Weichang	
Mr. Chung Chin Keung	(appointed on 1 February 2008)
Mr. Gao Sheng Yu	(retired on 28 April 2008)

In accordance with article 87(1) of the Company's Articles of Association, Ms. Ma Zheng and Mr. Wan Tze Fan Terence, being eligible, will offer themselves for re-election at the forthcoming AGM. All other remaining directors will continue in office.

All directors are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the provisions of the Company's Articles of Association.

Mr. Wan Tze Fan Terence and Mr. Liu Weichang are independent non-executive directors and were appointed without a specific term.

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 10 and 11.

Directors' service contracts

Ms. Ma Zheng and Mr. Wong Pui Yiu, both executive directors, have entered into service contracts with the Company for a term of two years commenced on 1 January 2008 and 1 February 2008 respectively and are subject to termination by either party giving not less than three months' written notice. These two service contracts are exempt from the shareholders' approval requirement under Rule 17.90 of the GEM Listing Rules of the Stock Exchange.

Independence of independent non-executive directors

Each of the independent non-executive Directors has confirmed his independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive Directors to be independent.

Directors' interests

Save as disclosed in note 25(ii) to the financial statements, no contract of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation

As at 31 December 2008, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

The approximate percentage of interest set out below is based on 8,197,355,200 ordinary shares in issue as at 31 December 2008, not on the total number of issued shares upon full conversion of the (i) convertible bond issued in favour of Future Advance Holdings Limited ("Future Advance") (details of which have been set out in the circular dated 21 March 2006), (ii) warrants (there are in total 634,950,000 warrants outstanding and 634,950,000 ordinary shares will be issued if all these warrants are exercised), (iii) pursuant to the conditional subscription agreement dated 12 June 2007, the convertible bonds (the "Convertible Bonds") issued to Lehman Brothers Commercial Corporation Asia Limited ("Lehman Brothers") (under liquidation and provisional liquidator appointed) and (iv) the preferred shares issued to Great Ocean Real Estate Limited ("GORE") (the "Preferred Shares").

(i) Long position in the ordinary shares of HK$0.00125 each in the Company as at 31 December 2008:

	Number of ordinary shares held		
Name of Director	**Type of interests**	**Number of ordinary shares**	**Approximate percentage of interests**
Ms. Ma Zheng	Beneficial	54,000,000	0.66%

Note: Ms. Ma Zheng is holding 12.5% of the equity interest of Future Advance and Future Advance beneficially owned 31.43% of the equity interest of the Company. In addition, Ms. Ma Zheng is an executive director of the Company and the sole director of Future Advance.

(ii) Long position in underlying shares or debentures of the Company as at 31 December 2008:

Name of Directors	**Type of interests**	**Description of securities**	**Number of underlying shares**	**Approximate percentage of interests**
Ms. Ma Zheng	Beneficial	Share Option (Note)	20,000,000	0.24%
Mr. Liu Weichang	Beneficial	Share Option (Note)	3,000,000	0.04%
Mr. Wan Tze Fan Terence	Beneficial	Share Option (Note)	3,000,000	0.04%

Note:

On 8 January 2008, Ms. Ma Zheng, the sole director of Future Advance and an executive Director, has been granted 20,000,000 share options under the existing share option scheme adopted in compliance with Chapter 23 of the GEM Listing Rules which carry rights to subscribe for 20,000,000 Shares at the current exercise price of HK$0.22 per Share.

On 8 January 2008, Mr. Liu Weichang, an independent non-executive Director, has also been granted 3,000,000 share options under the existing share option scheme adopted in compliance with Chapter 23 of the GEM Listing Rules which carry rights to subscribe for 3,000,000 Shares at the current exercise price of HK$0.22 per Share.

On 8 January 2008, Mr. Wan Tze Fan Terence, an independent non-executive Director, has also been granted 3,000,000 share options under the existing share option scheme adopted in compliance with Chapter 23 of the GEM Listing Rules which carry rights to subscribe for 3,000,000 Shares at the current exercise price of HK$0.22 per Share.

Save as disclosed above, as at 31 December 2008, none of the directors and chief executive of the Company had any other interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations, within the meaning of Part XV of the SFO required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Share option

On 17 March 2004, the Company forfeited all the outstanding share options granted from a Pre-IPO share option scheme (the "Pre-Scheme") adopted by the Company on 28 November 2001, and that all outstanding share options granted from the Pre-Scheme were cancelled and extinguished. Further details are set out in the announcement dated 17 March 2004. As at 31 December 2008, there were no share options outstanding under the Pre-Scheme.

On the same date as the adoption of the aforesaid Pre-Scheme, a further share option scheme (the "Post-Scheme") was approved by the Company. The Post-Scheme is valid and effective for a period of ten years commencing on the date on which it was adopted. The purpose of the Post-Scheme is to provide incentives and rewards to eligible participants who would contribute to the success of the Group's operations. Under the terms of the Post-Scheme, the Board may, at its discretion, grant options to any full-time employee and any director of the Company or its subsidiaries, including any executive, non-executive or independent non-executive directors. The total number of shares which may fall to be issued upon exercise of all of the outstanding options granted and yet to be exercised under the Post-Scheme and other schemes (including the Pre-Scheme) of the Company must not exceed 30% of the shares in issue from time to time. The Post-Scheme will remain in force for a period of ten years commencing the date on which the scheme becomes unconditional.

The Post-Scheme was amended and adopted by the shareholders at the annual general meeting of the Company held on 16 April 2003. The amendment involved the extension of the definition of eligible person in the Post-Scheme to include any suppliers, consultants, agents, advisors and distributors who, in the sole discretion of the Board, have contributed or may contribute to the Group.

As at 31 December 2008, the number of shares in respect of which options had been granted under the Post-Scheme was 681 million (2007: zero), representing 8.3% (2007: 0%) of the shares of the Company in issue. The total number of shares in respect of which options may be granted under the Post-Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of approval of the Post-Scheme, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

The subscription price will be determined by the Board and will be the highest of (i) the quoted closing price of the Company's shares on the Commencement Date (as defined in the Post-Scheme), which must be a trading day, and (ii) the average of the quoted closing price of the Company's shares for the five trading days immediately preceding the Commencement Date (as defined in the Post-Scheme). Any options granted under the Post-Scheme shall end in any event not later than ten years from the Commencement Date (as defined in the Post-Scheme). A nominal value of HK$1.00 is payable on acceptance of each grant of options.

Details of the share options granted by the Company pursuant to the Post-Scheme and the options as at 31 December 2008 were as follows:

Grantees	Date granted	Balance as at 1 January 2008 '000	Granted during the year '000	Exercised during the year '000	Lapsed during the year '000	Balance as at 31 December 2008 '000	Period during which the options are exercisable	Exercise price per share
Ms. Ma Zheng *(Director)*	8 January 2008	–	20,000	–	–	20,000	8 July 2008 to 27 November 2011	HK$0.22
Mr. Chiu Winerthan *(Ex-Director)*	8 January 2008	–	10,000	–	(10,000)	–	8 July 2008 to 27 November 2011	HK$0.22
Mr. Wan Tze Fan Terence *(Director)*	8 January 2008	–	3,000	–	–	3,000	8 July 2008 to 27 November 2011	HK$0.22
Mr. Liu Weichang *(Director)*	8 January 2008	–	3,000	–	–	3,000	8 July 2008 to 27 November 2011	HK$0.22
Employees	8 January 2008	–	645,000	–	(85,000)	560,000	8 July 2008 to 27 November 2011	HK$0.22
		–	681,000	–	(95,000)	586,000		

Notes:

1. At the date before the options were granted, 7 January 2008, the market value per share was HK$0.22. The value of the options granted to the respective parties is as follows:

	HK$'000
Ms. Ma Zheng, Director	1,298
Mr. Chiu Winerthan, Ex-Director	649
Mr. Wan Tze Fan Terence, Director	195
Mr. Liu Weichang, Director	195
Continuous contract employees	41,861

2. On 8 January 2008, a total of 681,000,000 share options were conditionally granted as to 20,000,000 share options to Ms. Ma Zheng, executive director, as to 10,000,000 share options to Mr. Chiu Winerthan, ex-director, as to 3,000,000 share options to Mr. Wan Tze Fan Terence and as to 3,000,000 share options to Mr. Liu Weichang, who are independent non-executive directors, and as to 645,000,000 share options to 14 full-time employees.

3. All the options offered on 8 January 2008 ("Offer") were conditional upon the Offer having been accepted by all grantees ("Grantees") and not subject to any conditions under the Post Scheme. All the options granted then became unconditional when the listing approval dated 26 September 2006 in respect of the shares which may fall to be allotted and issued upon the exercise of the share options granted to Mr. Yu Hongzhi, ex-director, was obtained from the Listing Committee of the Stock Exchange. In according with HKFRS 2 Share Based Payment, the financial impact of the options cost will be reflected in the account of the Company on the date when all of the conditions are satisfied.

4. As at 31 December 2008, there are 586,000,000 share options outstanding.

The fair value of the options granted in the current year, measured at the date of grant 8 January 2008, totalled approximately HK$44,196,900. The following significant assumptions were used to derive the fair value, using the Binomial option pricing model:

1. an expected volatility of 54.655%;

2. annual dividends of 2.3607% of earnings; and

3. the estimated expected life of the options granted during 2008 is two years. The corresponding two-year Hong Kong Exchange Fund Notes interest rate at the date the options were granted was 2.95%.

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to the absence of historical data.

The Binomial option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share potions.

Substantial shareholders' interests and short positions in the shares and underlying shares of the Company

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2008, the Company had been notified that the following substantial shareholders having the following interests and short positions, being 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, in the Company. These interests are shown in addition to those disclosed above in respect of the directors and chief executives:

The approximate percentage of interest set out below is based on 8,197,355,200 ordinary shares in issue as at 31 December 2008, not on the total number of issued shares upon full conversion of the (i) convertible bond issued in favour of Future Advance, (ii) warrants (there are in total 634,950,000 warrants outstanding and 634,950,000 ordinary shares will be issued if all these warrants are exercised), (iii) pursuant to the conditional subscription agreement dated 12 June 2007, the Convertible Bonds issued to Lehman Brothers (under liquidation and provisional liquidator appointed) and (iv) the Preferred Shares issued to GORE.

(i) Long position in the ordinary shares of HK$0.00125 each in the Company as at 31 December 2008:

Name of shareholders	Type of interests	Number of the shares held	Approximate percentage of issued share capital
Future Advance Holdings Limited	Beneficial	2,576,194,460	31.43%
China Zong Heng Holdings Limited	Corporate (Note 1)	2,576,194,460	31.43%
Mr. Yu Hongzhi	Corporate (Note 1)	2,576,194,460	31.43%
	Beneficial	76,000,000	0.93%
	Subtotal:	2,652,194,460	32.36%
APAC Resources Limited	Corporate	862,912,520	10.53%
Super Grand Investments Limited ("Super Grand")	Beneficial (Note 2)	862,912,520	10.53%
胡玉女士(Ms. Hu Yu)#	Beneficial	473,088,000	5.77%

Notes:

1. These shares are held by Future Advance. Future Advance is the only substantial shareholder which is beneficially owned as to 37.5% by China Zong Heng Holdings Limited (which in turn is 100% beneficially owned by Mr. Yu Hongzhi), as to 12.5% by Ms. Ma Zheng who is the sole director of Future Advance, and as to 27% by Zhong Nan Mining Group Limited (which in turn is 100% beneficially owned by Mr. Zhang Lei), as to 13% by Mr. Wu Yong Jin and as to the remaining 10% by Ms. Ma Yi.

2. These shares are held by Super Grand and Super Grand is a wholly-owned subsidiary of APAC Resources Limited, the issued shares of which are listed on the main board of the Stock Exchange.

(ii) Long position in the underlying shares or debentures of the Company as at 31 December 2008:

Name	**Type of interests**	**Description of derivatives**	**Number of underlying Shares**	**Approximate percentage of interests**
Future Advance Holdings Limited	Beneficial	Convertible bond (Note 1)	313,503,280	3.82%
China Zong Heng Holdings Limited	Corporate	Convertible bond (Note 1)	313,503,280	3.82%
Lehman Brothers Holdings Inc. (under liquidation)	Beneficial	Convertible Bonds (Notes 2 & 4)	1,392,671,530	16.99%
Great Ocean Real Estate Limited	Beneficial	Preferred Shares (Notes 3 & 4)	2,802,235,294	34.18%
Mr. Zhang Zheng (張征先生)	Corporate	Preferred Shares (Notes 3 & 4)	2,802,235,294	34.18%

Notes:

1. On 27 April 2006, by an instrument dated the same date, the Company created and issued in favour of Future Advance a convertible bond in the principal amount of HK$6,270,065.60 pursuant to a subscription agreement dated 24 February 2006 entered into between the Company and Future Advance. Details of which have been set out in the announcement dated 28 February 2006. These shares represent the maximum number of new shares, which may be converted from the said convertible bond held by Future Advance as at 31 December 2008.

2. The underlying shares are held by Lehman Brothers (under liquidation and provisional liquidator appointed), the ultimate beneficial owner of which is Lehman Brothers Holdings Inc. (under liquidation). The total number of shares to which Lehman Brothers are entitled under the Convertible Bonds has taken into account the existing issued share capital of the Company and all outstanding securities which may be convertible into or carry rights to subscribe for new shares. Based on the existing issued share capital and assuming full conversion of the convertible bonds held by Future Advance (see section (i) note 1 above) and exercise in full of all other securities carrying rights to subscribe for new shares including warrants and share options and other convertible securities convertible into new shares of the Company outstanding as at 31 December 2008, the maximum number of new shares to be issued upon full conversion of the Convertible Bonds is 1,392,671,530 shares, representing 10% of the issued share capital of the Company as enlarged by the full conversion of the aforesaid convertible securities. Details of which are set out in the circular dated 5 September 2007.

3. These underlying shares are held by GORE, a company incorporated in the British Virgin Islands with limited liability, and Mr. Zhang Zheng (張征), is the sole beneficial owner of GORE. The Preferred Shares issued carry the conversion right to convert into ordinary shares of HK$0.00125 each of the Company at the initial conversion rate of 1:1, subject to adjustments.

4. It is on 26 October 2007 and 31 October 2007, with all the conditions being fulfilled, the creation and issuance of the Preferred Shares and Convertible Bonds were completed respectively.

Save as disclosed above, as at 31 December 2008, the directors are not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or who had an interest, directly or indirectly, in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or any other substantial shareholders whose interests or short position were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Directors' rights to acquire shares

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 100% of the total sales for the year, and sales to the largest customer included therein amounted to approximately 64%.

Purchases from the Group's largest supplier accounted for approximately 47% of the total purchases for the year and the five largest suppliers accounted for approximately 100% of the Group's total purchases for the year.

None of the Company's directors or their respective associates (as defined in the GEM Listing Rules) or the existing shareholders, which, to the knowledge of the directors of the Company, holding more than 5% of the Company's issued share capital, had any interests in the Group's five largest customers or suppliers at any time during 2008.

Code on corporate governance practices

Subject to the deviations as disclosed in the Corporate Governance Report, the Company had complied with all the code provisions set out in Appendix 15, the Code on Corporate Governance Practices to the GEM Listing Rules during the year under review.

Audit committee

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, Mr. Wan Tze Fan Terence, Mr. Liu Weichang and Mr. Chung Chin Keung who are the independent non-executive directors of the Company. During the year, the audit committee of the Company (the "Audit Committee") held four meetings and performed duties including reviewing the Group's annual report, half-yearly report, quarterly reports and announcements. After reviewing the Group's financial statements for the year ended 31 December 2008, the Audit Committee is of the opinion that the financial statements of the Company and the Group for the year ended 31 December 2008 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

Remuneration committee

The remuneration committee of the Company was established on 1 June 2005. The function of the remuneration committee is to consider and recommend to the Board on the Group's remuneration policy and structure for all remuneration of executive directors and senior management and to review and determine the remuneration packages of the executive directors and senior management. The remuneration committee comprises three members, Mr. Wan Tze Fan Terence, Mr. Liu Weichang and Mr. Chung Chin Keung who are the independent non-executive directors of the Company.

Connected and related party transactions

Details of the connected transactions during the year are included in note 36 to the financial statements, which included all the details required to be disclosed pursuant to the Rule 20.45 of the GEM Listing Rules.

Competition and conflict of interests

Mr. Yu Hongzhi, the director of the Company's subsidiary of Yichang Fulianjiang Joint Composite Limited (宜昌富連江複合材料有限公司), is the director and legal representative of 宜昌弘訊管業有限公司 ("Yichang HongXun Conduit and Calling Company Limited")#, which is engaged in selling and producing PE pipes in the PRC. Mr. Yu Hongzhi was not the controlling shareholder of 宜昌弘訊管業有限公司. Save as disclosed, as at 31 December 2008, none of the Directors, management shareholders, substantial shareholders and any of their respective associates has engaged in any business that competes or may compete directly or indirectly, with the business of the Group, or has or may have any other conflicts of interest with the Group during the year ended 31 December 2008.

Sufficiency of public float

The Company has maintained sufficient public float throughout the year ended 31 December 2008.

Contingent liabilities

As at 31 December 2008, the directors of the Company were not aware of any material contingent liabilities.

Subsequent events

Subsequent to 31 December 2008, the Group does not have significant post balance sheet event.

Auditor

The financial statements have been audited by Shu Lun Pan Horwath Hong Kong CPA Limited, who will retire and be eligible to offer themselves for re-appointment. A resolution will be submitted to the forthcoming annual general meeting to authorise the Board to appoint auditor and to fix their remuneration.

On behalf of the Board

Ma Zheng
Chairman

Hong Kong, 24 March 2009

Horwath

Shu Lun Pan Horwath Hong Kong CPA Limited
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TO THE SHAREHOLDERS OF CHINA PRIMARY RESOURCES HOLDINGS LIMITED
(中國基礎資源控股有限公司)
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of China Primary Resources Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 119, which comprise the consolidated and company balance sheets as at 31 December 2008, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and the true and fair presentation of the financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHU LUN PAN HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

Shiu Hong NG
Practising Certificate number P03752

24 March 2009

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2008
(Expressed in Hong Kong dollars)

	Notes	**2008 HK$'000**	2007 HK$'000
Turnover	5	**72,770**	31,826
Other income and gain	7	**7,524**	1,601
Cost of inventories sold		**(70,676)**	(31,261)
Staff costs, including directors' remuneration	13	**(49,435)**	(6,393)
Depreciation		**(1,770)**	(1,555)
Amortisation of mining rights	17	**(12,552)**	–
Amortisation of land use rights	16	**(694)**	(653)
Other operating expenses		**(13,793)**	(9,685)
Impairment loss on mining rights	17	**(230,814)**	–
Impairment loss on property, plant and equipment	15	**–**	(3,097)
Impairment loss on prepayments	20	**–**	(273)
Share of (losses)/profits, net of associates	18	**(1,155,573)**	1,139,370
Excess of the Group's share of the net fair value of the interests in subsidiaries acquired over the cost of acquisition	31	**118,110**	–
Finance costs	8	**(25,330)**	(4,494)
(Loss)/profit before income tax	9	**(1,362,233)**	1,115,386
Income tax credit	10(a)	**63,236**	272
(Loss)/profit for the year		**(1,298,997)**	1,115,658

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2008
(Expressed in Hong Kong dollars)

	Notes	**2008 HK$'000**	2007 HK$'000
Attributable to:			
Equity holders of the Company	11	**(1,243,920)**	1,115,983
Minority interests		**(55,077)**	(325)
		(1,298,997)	1,115,658
Dividend	11	**–**	–
(Loss)/earnings per share	12		
– Basic (HK$)		**(0.156)**	0.160
– Diluted (HK$)		**N/A**	0.097

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet

AT 31 DECEMBER 2008
(Expressed in Hong Kong dollars)

	Notes	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**62,808**	28,226
Land use rights	16	**31,477**	30,272
Mining rights	17	**214,057**	–
Interests in associates	18	**1,112,008**	2,133,361
Deposits paid	20	**91,462**	15,961
		1,511,812	2,207,820
Current assets			
Inventories	21	**9,092**	438
Trade receivables	22	**45,081**	–
Other receivables, deposits and prepayments	20	**12,841**	13,634
Tax recoverable		**45**	42
Cash and cash equivalents	23	**99,361**	294,063
		166,420	308,177
Current liabilities			
Trade payables	24	**3,178**	68
Other payables and accruals		**14,596**	2,038
Convertible bonds	25(ii)	**6,228**	–
		24,002	2,106
Net current assets		**142,418**	306,071
Total assets less current liabilities		**1,654,230**	2,513,891

Consolidated Balance Sheet

AT 31 DECEMBER 2008
(Expressed in Hong Kong dollars)

	Notes	2008 HK$'000	2007 HK$'000
Total assets less current liabilities		**1,654,230**	2,513,891
Non-current liabilities			
Convertible bonds	25(i)	**232,552**	226,107
Deferred tax liabilities	26	**182,818**	152,211
Convertible preferred shares	27	**55,756**	50,992
		471,126	429,310
Net assets		**1,183,104**	2,084,581
EQUITY			
Share capital	28	**10,247**	9,344
Reserves		**1,134,516**	2,071,534
Equity attributable to equity holders of the Company		**1,144,763**	2,080,878
Minority interests		**38,341**	3,703
Total equity		**1,183,104**	2,084,581

These financial statements were approved and authorised for issue by the board of directors on 24 March 2009.

Ma Zheng
Director

Wong Pui Yiu
Director

The accompanying notes form part of these financial statements.

Balance Sheet

AT 31 DECEMBER 2008
(Expressed in Hong Kong dollars)

	Notes	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	19	**421,266**	311,852
Current assets			
Other receivables, deposits and prepayments		**200**	165
Amounts due from subsidiaries	19	**1,022,063**	964,835
Cash and cash equivalents	23	**33,740**	202,135
		1,056,003	1,167,135
Current liabilities			
Other payables and accruals		**724**	1,001
Amounts due to subsidiaries	19	**157,910**	213,941
Convertible bonds	25(ii)	**6,228**	–
		164,862	214,942
Net current assets		**891,141**	952,193
Total assets less current liabilities		**1,312,407**	1,264,045

Balance Sheet

AT 31 DECEMBER 2008
(Expressed in Hong Kong dollars)

	Notes	2008 HK$'000	2007 HK$'000
Total assets less current liabilities		**1,312,407**	1,264,045
Non-current liabilities			
Convertible bonds	25(i)	**232,552**	226,107
Deferred tax liabilities	26	**149,775**	152,192
Convertible preferred shares	27	**55,756**	50,992
		438,083	429,291
Net assets		**874,324**	834,754
EQUITY			
Share capital	28	**10,247**	9,344
Reserves	30	**864,077**	825,410
Total equity		**874,324**	834,754

These financial statements were approved and authorised for issue by the board of directors on 24 March 2009.

Ma Zheng
Director

Wong Pui Yiu
Director

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2008
(Expressed in Hong Kong dollars)

	Equity attributable to equity holders of the Company										
	Share capital HK$'000	**Share premium account** HK$'000 (Note (a))	**Convertible bonds reserve** HK$'000	**Employee compensation reserve** HK$'000 (Note 29)	**Statutory surplus reserve** HK$'000 (Note (b))	**Convertible preferred shares reserve** HK$'000 (Note 27)	**Warrants reserve** HK$'000 (Note (c))	**Exchange translation reserve** HK$'000 (Note (d))	**(Accumulated losses)/ retained profits** HK$'000	**Minority interests** HK$'000	**Total equity** HK$'000
Balance at 1 January 2007	8,519	167,601	1,063	1,531	5,110	–	8,224	1,920	(31,007)	4,651	167,612
Translation of financial statements of foreign operation (net income recognised directly in equity)	–	–	–	–	–	–	–	11,034	–	396	11,430
Profit for the year	–	–	–	–	–	–	–	–	1,115,983	(325)	1,115,658
Total income and expense for the year	–	–	–	–	–	–	–	11,034	1,115,983	71	1,127,088
Acquisition of additional equity interest of a subsidiary	–	–	–	–	–	–	–	–	–	(1,019)	(1,019)
Issue of shares on exercise of share options (Note 28)	220	10,639	–	(1,531)	–	–	–	–	–	–	9,328
Issue of shares on exercise of warrants (Note 28)	605	10,011	–	–	–	–	(605)	–	–	–	10,011
Issue of convertible bonds and convertible preferred shares	–	–	22,163	–	–	902,562	–	–	–	–	924,725
Issue expenses for convertible bonds	–	–	(700)	–	–	–	–	–	–	–	(700)
Deferred tax arising from equity components of convertible bonds and convertible preferred shares	–	–	(3,541)	–	–	(148,923)	–	–	–	–	(152,464)
Balance at 31 December 2007 and 1 January 2008	9,344	188,251	18,985	–	5,110	753,639	7,619	12,954	1,084,976	3,703	2,084,581
Translation of financial statements of foreign operation (net income recognised directly in equity)	–	–	–	–	–	–	–	155,956	–	1,837	157,793
Loss for the year	–	–	–	–	–	–	–	–	(1,243,920)	(55,077)	(1,298,997)
Total income and expenses for the year	–	–	–	–	–	–	–	155,956	(1,243,920)	(53,240)	(1,141,204)
Acquisition of equity interest of subsidiaries (Note 31)	–	–	–	–	–	–	–	–	–	87,878	87,878
Issue of shares on acquisition of subsidiaries (Note 31)	903	107,398	–	–	–	–	–	–	–	–	108,301
Recognition of equity – settled share-based compensation (Note 29)	–	–	–	43,548	–	–	–	–	–	–	43,548
Release of reserve upon lapse of share options (Note 29)	–	–	–	(5,517)	–	–	–	–	5,517	–	–
Balance at 31 December 2008	10,247	295,649	18,985	38,031	5,110	753,639	7,619	168,910	(153,427)	38,341	1,183,104

The accompanying notes form part of these financial statements.

Notes:

(a) The share premium account of the Group includes: (i) the premium arising from the issue of shares of the Company at a premium less share issue expenses; and (ii) the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to the reorganisation scheme (the "Group Reorganisation") in preparation for the public listing of the Company's shares on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") over the nominal value of the shares of the Company issued in exchange therefor.

(b) Subsidiaries of the Company established in the People's Republic of China (the "PRC") are required to transfer 10% of their profit after tax calculated in accordance with the PRC accounting regulations to the statutory surplus reserve until the reserve reaches 50% of their respective registered capital, upon which any further appropriation will be at the recommendation of the directors of subsidiaries. Such reserve may be used to reduce any losses incurred by the subsidiaries or be capitalised as paid-up capital of the subsidiaries.

(c) On 23 August 2006, the Company issued 333,750,000 non-listed warrants at the issue price of HK$0.012 per warrant to Mr. Ha Siu Wa, an independent third party, who is not a connected person of the Company. The warrants will mature in three years from the date of issue. Each warrant entities the holder thereof to subscribe for one new share at an initial exercise price of HK$0.265 per new share, payable in cash and subject to adjustment. Consideration of HK$4,005,000 was received.

On 18 September 2006, the Company issued 315,000,000 non-listed warrants at the issue price of HK$0.012 per warrant to Northern Power Group Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly-owned by 李海環 who is interested in approximately 0.26% of the issued capital of the Company. The warrants will mature in three years from the date of issue. Each warrant entities the holder thereof to subscribe for one new share at an initial exercise price of HK$0.28 per new share, payable in cash and subject to adjustment. Consideration of HK$3,780,000 was received.

The reason for the issues was to raise additional funds for the Group's general working capital.

During the current year, nil (2007: 34,654,400) warrants had been exercised.

(d) Exchange translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. This reserve is dealt with in accordance with the accounting policy in Note 3(q).

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2008
(Expressed in Hong Kong dollars)

	Notes	2008 HK$'000	2007 HK$'000
Operating activities			
(Loss)/profit before income tax		**(1,362,233)**	1,115,386
Adjustments for:			
Depreciation	9	**2,991**	2,707
Amortisation on land use rights		**694**	653
Impairment loss on mining rights		**230,814**	–
Amortisation on mining rights		**12,552**	–
Employee share-based compensation	13	**43,548**	–
Bank interest income		**(2,267)**	(1,529)
Gain on disposal of property, plant and equipment	9	**–**	(57)
Interest on convertible bonds	8	**20,184**	3,700
Imputed interest on convertible preferred shares	8	**4,764**	794
Impairment loss on property, plant and equipment		**–**	3,097
Write-off of property, plant and equipment		**3**	–
Impairment loss on prepayments		**–**	273
Excess of the Group's share of the net fair value of the interests in subsidiaries acquired over the cost of acquisition	31	**(118,110)**	–
Share of (losses)/profits, net of associates		**1,155,573**	(1,139,370)
Operating loss before working capital changes		**(11,487)**	(14,346)
(Increase)/decrease in inventories		**(8,654)**	2,101
(Increase)/decrease in trade receivables		**(45,081)**	1,394
Decrease/(increase) in other receivables, deposits and prepayments		**814**	(7,811)
Increase/(decrease) in trade payables		**3,110**	(399)
Increase/(decrease) in other payables and accruals		**12,295**	(57)
Effect of foreign exchange differences		**8,804**	2,059
Cash used in operations		**(40,199)**	(17,059)
Interest income received		**2,267**	1,529
Overseas income taxes paid		**(301)**	–
Net cash used in operating activities		**(38,233)**	(15,530)

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2008
(Expressed in Hong Kong dollars)

	Notes	2008 HK$'000	2007 HK$'000
Investing activities			
Deposits paid	20	**(91,462)**	(15,961)
Purchases of property, plant and equipment	15	**(35,808)**	(2,312)
Net cash outflow from acquisition of subsidiaries	31	**(27,170)**	–
Payment to acquire interests in associates		**–**	(22,604)
Payment to acquire additional equity interest in a subsidiary		**–**	(1,019)
Proceeds from disposal of property, plant and equipment		**–**	1,206
Net cash used in investing activities		**(154,440)**	(40,690)
Financing activities			
Issue of convertible bonds		**–**	246,250
Payment of issue costs for convertible bonds		**–**	(7,787)
Convertible bond interest paid		**(7,511)**	(62)
Proceeds from exercise of share options		**–**	9,328
Proceeds from exercise of warrants		**–**	10,011
Net cash (used in)/generated from financing activities		**(7,511)**	257,740
Net (decrease)/increase in cash and cash equivalents		**(200,184)**	201,520
Cash and cash equivalents at beginning of year		**294,063**	88,204
Effect of foreign exchange rate changes		**5,482**	4,339
Cash and cash equivalents at end of year		**99,361**	294,063
Analysis of the balances of cash and cash equivalents			
Cash at bank and in hand		**99,361**	294,063

1. Organisation and operations

The Company is a limited liability company incorporated in the Cayman Islands, as an exempted company under the Companies Law (2001 Revision) of the Cayman Islands on 5 September 2001. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is in Hong Kong. The Company's shares are listed on the GEM of the Stock Exchange.

The principal activity of the Company is investment holding. The Group engages in (i) manufacture and sale of Polyethylene ("PE")/Fibre Glass Reinforced Plastic ("FRP") pipes; (ii) mining businesses; and (iii) property development through its interests in associates, and operates primarily in the markets of the People's Republic of China (the "PRC") and the independent sovereign state of Mongolia ("Mongolia"). The activities of the subsidiaries are set out in Note 19 to the financial statements.

2. Adoption of new and revised Standards

In the current year, the Group has adopted all of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies.

The adoption of HK(IFRIC) – Int 11 "HKFRS 2 – Group and treasury share transactions", HK(IFRIC) – Int 12 "Service concession arrangements", HK(IFRIC) – Int 14 "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" and HKAS 39 & HKFRS 7 Amendments "Reclassification of financial assets" has no impact on the financial statements.

(Expressed in Hong Kong dollars)

2. Adoption of new and revised Standards (continued)

At the date of authorisation of the financial statements, the following Standards and Interpretations were in issue but not yet effective:

		Effective date
HKAS 1 (Revised)	Presentation of financial statements	(i)
HKAS 23 (Revised)	Borrowing costs	(i)
HKAS 32 & HKAS 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation	(i)
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate	(i)
HKFRS 8	Operating segments	(i)
HK(IFRIC) – Int 15	Agreements for the construction of real estates	(i)
HKFRS 2 (Amendment)	Vesting conditions and cancellations	(i)
HKAS 27 (Revised)	Consolidated and separate financial statements	(ii)
HKAS 39 (Amendment)	Financial instruments: recognition and measurement – eligible hedged items	(ii)
HKFRS 1 (Revised)	First-time adoption of HKFRSs	(ii)
HKFRS 3 (Revised)	Business combinations	(ii)
HK(IFRIC) – Int 17	Distributions of non-cash assets to owners	(ii)
HK(IFRIC) – Int 13	Customer loyalty programmes	(iii)
HK(IFRIC) – Int 16	Hedges of a net investment in a foreign operation	(iv)
HK (IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded derivatives	(v)
HK(IFRIC) – Int 18	Transfers of assets from customers	(vi)
2008 Improvements to HKFRSs that may result in accounting changes for presentation, recognition or measurement	– HKAS 1, HKAS 16, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 36, HKAS 38, HKAS 39, HKAS 40 & HKAS 41	(i)
	– HKFRS 5	(ii)

2. Adoption of new and revised Standards (continued)

Effective date

(i) Annual periods beginning on or after 1 January 2009
(ii) Annual periods beginning on or after 1 July 2009
(iii) Annual periods beginning on or after 1 July 2008
(iv) Annual periods beginning on or after 1 October 2008
(v) Annual periods ending on or after 30 June 2009
(vi) Transfers of assets from customers received on or after 1 July 2009

The Group is in the process of making an assessment of what the impact of these new or revised Standards or Interpretations is expected to be in the period of their initial application.

3. Principal accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

(b) Basis of preparation of financial statements

These financial statements have been prepared under the historical cost convention.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

3. *Principal accounting policies (continued)*

(c) Basis of consolidation *(continued)*

All significant intercompany transactions, balances and unrealised gains on transactions between group enterprises are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment on the asset transferred.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(d) Business combinations

Acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. Principal accounting policies (continued)

(e) Subsidiaries

Subsidiaries are entities in which the Group has the power to govern the financial and operating policies, so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(f) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

The results and assets and liabilities of associate are incorporated in these financial statements using the equity method of accounting. Under the equity method, interests in associates are carried in the consolidated balance sheet at the Group's share of the net assets of the associate, less impairment in the value of individual investments. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves respectively. Losses of an associate in excess of the Group's interest in that associate are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the assets transferred, in which case they are recognised immediately in profit or loss.

3. Principal accounting policies (continued)

(g) Property, plant and equipment

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost less any recognised impairment loss and are not depreciated. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy in Note 3(t). Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Other property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates are as follows:

Buildings	Over the lease terms
Leasehold improvements	Over the remaining term of the lease but not exceeding 4 years
Computer equipment	20%
Plant and machinery	10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. *Principal accounting policies (continued)*

(h) Mining rights

Mining rights are stated at cost less accumulated amortisation and any impairment losses and are amortised on the straight line method over the shorter of their useful life estimated based on the total proven and probable reserves of the mine or contractual period from the date of commencement of commercial production which approximates the date from which they are available for use.

(i) Impairment of assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. Principal accounting policies (continued)

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, including an appropriate portion of overhead expenses, is assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sale.

(k) Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, are initially measured at fair value, plus transaction costs. The Group's financial assets comprised loans and receivables, which are subsequently accounted for as follows.

(i) Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3. Principal accounting policies (continued)

(k) Financial assets (continued)

(ii) Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For loans and receivables of the Group, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss determined and recognised as follows:

For trade and other current receivables, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

3. Principal accounting policies (continued)

(k) Financial assets (continued)

(ii) Impairment of financial assets (continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which has been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(iii) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

3. Principal accounting policies (continued)

(k) Financial assets (continued)

(iv) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(l) Financial liabilities and equity instrument issued by the Group

(i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

(ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

3. Principal accounting policies (continued)

(l) Financial liabilities and equity instrument issued by the Group (continued)

(iii) Compound instruments

The component parts of compound instruments, comprising convertible bonds and convertible preferred shares issued by the Group, are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Issue costs were apportioned between the liability and equity components of the compound instruments based on their relative carrying amounts at the date of issue. The portion relating to the equity component was charged directly to equity.

(iv) Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

(v) Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

3. *Principal accounting policies (continued)*

(l) Financial liabilities and equity instrument issued by the Group (continued)

(vi) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

(m) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(n) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Land use rights under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

3. *Principal accounting policies (continued)*

(o) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

One consequence of mining is land subsidence caused by the resettlement of the land at the mining sites. Depending on the circumstances, the Group may relocate inhabitants from the mining sites prior to conducting mining activities or the Group may compensate the inhabitants for losses or damage from close down and land subsidence after the sites have been mined. The Group may also be required to make payments for restoration, rehabilitation or environmental protection of the land after the sites have been mined.

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during mine development or during the production phase, based on the net present value of estimated future costs. The cost is capitalised where it gives rise to future benefits, whether the rehabilitation activity is expected to occur over the life of the operation or at the time of close down. The capitalised cost is amortised over the life of the operation and the increase in the net present value of the provision is included in borrowing costs. Where there is a change in the expected decommissioning and restoration costs, an adjustment is recorded against the carrying value of the provision and related assets, and the effect is then recognised in the income statement on a prospective basis over the remaining life of the operation. Provision for close down and restoration costs does not include any additional obligations which are expected to arise from future disturbance. The cost estimates are reviewed and revised at each balance sheet date to reflect changes in conditions.

3. *Principal accounting policies (continued)*

(p) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. Principal accounting policies (continued)

(p) Taxation (continued)

(ii) Deferred tax (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. *Principal accounting policies (continued)*

(q) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("functional currency"). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Hong Kong dollar which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

Items included in the financial statements of the Company are measured using the Hong Kong dollar, the functional currency of the Company. The financial statements are presented in Hong Kong dollars.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

– exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;

– exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

– exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the exchange translation reserve and recognised in profit or loss on disposal of the net investment.

3. Principal accounting policies (continued)

(q) Foreign currencies (continued)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Hong Kong dollar using exchange rates prevailing at the balance sheet date. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(r) Employees' benefits

(i) Short term benefits

Salaries, annual bonuses, paid annual leaves and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.

(ii) Pension obligations

Contributions to the Mandatory Provident Fund scheme as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to profit or loss when incurred. The Group has no further payment obligations once the contribution has been made.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentages of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

3. *Principal accounting policies (continued)*

(s) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the employee compensation reserve.

The policy described above is applied to all equity-settled share-based payments that were granted after 7 November 2002 that vested after 1 January 2005. No amount has been recognised in the financial statements in respect of other equity-settled share-based payments.

Equity-settled share-based payments transactions with other parties are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Group obtains the goods or the counterparty renders the services.

(t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. Principal accounting policies (continued)

(u) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances and exclude value added tax or other sales related taxes.

(i) Revenue from sale of products is recognised when the Group has delivered the products to the customer, the customer has accepted the products and collectibility of the related receivable is reasonably assured.

(ii) Interest income is accrued on a time-apportioned basis by reference to the principal outstanding using the effective interest method.

3. Principal accounting policies (continued)

(w) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

4. Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

4. *Critical accounting judgements and key sources of estimation uncertainty (continued)*

(a) Carrying value of non-current assets and impairment of assets

Non-current assets, including property, plant and equipment and mining rights, are carried at cost less accumulated depreciation and amortisation, where appropriate, and impairment losses. Interests in associates of the Group are carried in the Group's share of the net assets of the associates less impairment in the value of individual investments. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position. Details of the impairment in property, plant and equipment, mining rights and interests in associates are set out in Notes 15, 17 and 18 to the financial statements, respectively. In addition, the Company also assessed the impairment on its investment costs in subsidiaries and amounts due from subsidiaries, details of which are set out in Note 19 to the financial statements.

(b) Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the impairment of receivable at the balance sheet date.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market conditions and the historical experience of selling products of a similar nature. It could change significantly as a result of competitors' actions in response to severe industry cycles. Management reassesses these estimations at the balance sheet date to ensure inventory is shown at the lower of cost and net realisable value.

4. *Critical accounting judgements and key sources of estimation uncertainty (continued)*

(d) Recognition of cost of interests in associates and subsidiaries acquired upon acquisition and excess of the Group's share of the net fair value of the interests in associates and subsidiaries acquired over the cost of the acquisition

The fair value of the Group's interests in associates and subsidiaries upon the acquisition and hence the excess of the Group's share of the net fair value of the interests in associates and subsidiaries over the cost of the acquisition are determined using discounted cash flow method with reference to a technical assessment report on the mining sites of the associates and subsidiaries and business valuation reports of the associates and subsidiaries issued by independent professionally qualified valuers, which adopted assumptions regarding the operations of the associates and subsidiaries acquired. Further details are set out in Notes 18 and 31 to the financial statements.

(e) Reserve estimates

Reserves are estimates of the amount of products that can be economically and legally extracted from the Group's properties. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand and commodity prices.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgments and calculations to interpret the data.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

(e) Reserve estimates (continued)

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

(i) Asset carrying values may be affected due to changes in estimated future cash flows.

(ii) Depreciation, depletion and amortisation charged in the income statement may change where such charges are determined by the useful economic lives of assets change.

(iii) Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

(iv) The carrying value of deferred tax may change as a result of changes in the asset carrying values as discussed above.

(f) Income tax

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. In addition, the realisation of the future income tax assets is dependent on the Group's ability to generate sufficient taxable income in future years to utilise income tax benefits and income tax loss carry-forwards. Deviations of future profitability from estimates or in the income tax rate would result in adjustments to the value of future income tax assets and liabilities that could have a significant effect on earnings.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

(g) Provision for close down, restoration and environmental costs

The provision for close down, restoration and environmental costs is determined by management based on their past experience and best estimation of future expenditure, after taking into account existing relevant Mongolian regulations. However, in so far as the effect on the land and the environment from current mining activities becomes apparent in future years, the estimate of the associated costs may be subject to revision from time to time.

5. Turnover

Turnover, which is also revenue, represents the sales value of goods supplied to customers and is analysed as follows:

	2008	2007
	HK$'000	HK$'000
Sale of composite materials	**52,998**	24,713
Sale of PE/FRP pipes	**19,772**	7,113
	72,770	31,826

6. Segment information

(a) Primary Reporting Format – Business segments

Segment information is presented by way of a two-segment format: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

– Manufacture and sale of PE/FRP pipes

– Sale of raw materials and composite materials (collectively as the "composite materials")

– Mining operation

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

There was no inter-segment sale or transfer during the year (2007: HK$Nil).

6. Segment information (continued)

(a) Primary reporting format – Business segments (continued)

	Sale of composite materials		Manufacture and sale of PE/FRP pipes		Mining operation		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Revenue from external customers	**52,998**	24,713	**19,772**	7,113	**–**	–	**72,770**	31,826
Cost of inventories sold	**(51,660)**	(23,450)	**(19,016)**	(7,811)	**–**	–	**(70,676)**	(31,261)
Other operating expenses	**(2,996)**	(5,812)	**(1,118)**	(1,673)	**–**	–	**(4,114)**	(7,485)
Segment results	**(1,658)**	(4,549)	**(362)**	(2,371)	**–**	–	**(2,020)**	(6,920)
Other income and gain							**7,524**	1,601
Finance costs							**(25,330)**	(4,494)
Share of profits less losses of associates	**–**	–	**–**	–	**(1,155,573)**	1,139,370	**(1,155,573)**	1,139,370
Unallocated expenses							**(186,834)**	(14,171)
(Loss)/profit before income tax							**(1,362,233)**	1,115,386
Income tax							**63,236**	272
(Loss)/profit for the year							**(1,298,997)**	1,115,658
Assets								
Segment assets	**25,638**	–	**151,581**	91,689	**214,057**	–	**391,276**	91,689
Interests in associates	**–**	–	**–**	–	**1,112,008**	2,133,361	**1,112,008**	2,133,361
Unallocated assets							**174,948**	290,947
Total assets							**1,678,232**	2,515,997
Liabilities								
Segment liabilities	**–**	–	**(18,074)**	(1,015)	**–**	–	**(18,074)**	(1,015)
Unallocated liabilities							**(477,054)**	(430,401)
Total liabilities							**(495,128)**	(431,416)
Other information								
Capital expenditure	**–**	–	**35,507**	625	**214,139**	–	**249,646**	625
Unallocated capital expenditure							**219**	1,687
Total capital expenditure							**249,865**	2,312
Depreciation and impairment losses for the year	**–**	–	**2,902**	5,202	**243,366**	–	**246,268**	5,202
Unallocated depreciation							**89**	602
Total depreciation and impairment losses							**246,357**	5,804
Amortisation of land use rights	**–**	–	**694**	653	**–**	–	**694**	653
Amortisation of mining rights	**–**	–	**–**	–	**12,552**	–	**12,552**	–

6. *Segment information (continued)*

(b) Geographical segments

	PRC		Mongolia		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Revenue from external customers	**72,770**	31,826	**–**	–	**72,770**	31,826
Assets						
Segment assets	**1,289,227**	2,225,050	**214,057**	–	**1,503,284**	2,225,050
Unallocated assets					**174,948**	290,947
Total assets					**1,678,232**	2,515,997
Other information						
Capital expenditure	**35,507**	625	**214,139**	–	**249,646**	625
Unallocated capital expenditure					**219**	1,687
Total capital expenditure					**249,865**	2,312

7. *Other income and gain*

	2008 HK$'000	2007 HK$'000
Bank interest income	**2,267**	1,529
Compensation from a supplier#	**5,253**	–
Gain on disposal of property, plant and equipment	**–**	57
Sundry income	**4**	15
	7,524	1,601

\# The balance represented compensation from a supplier of equipment as a result of non-delivery of the equipment ordered.

8. Finance costs

	2008	2007
	HK$'000	HK$'000
Interest expenses on convertible bonds maturing within five years	**20,184**	3,700
Imputed interest on convertible preferred shares (Note 27)	**4,764**	794
Others	**382**	–
	25,330	4,494

9. (Loss)/profit before income tax

	2008	2007
	HK$'000	HK$'000
(Loss)/profit before income tax is arrived at after charging/(crediting):		
Auditor's remuneration	**720**	700
Operating lease charges:		
– Land and buildings (Note 34)	**2,530**	743
Net foreign exchange losses	**868**	1
Depreciation (Note)	**2,991**	2,707
Write-off of property, plant and equipment	**3**	–
Gain on disposal of property, plant and equipment	**–**	(57)

Note: Depreciation charge of HK$1,221,000 (2007: HK$1,152,000) has been included in cost of inventories sold on the face of the consolidated income statement.

10. Income tax

(a) Taxation in the consolidated income statement represents:

	2008 HK$'000	2007 HK$'000
Group:		
Current – PRC tax	**301**	–
Deferred taxation (Note 26)		
– attributable to the origination and reversal of temporary differences, net	**(63,537)**	(272)
Total tax credit for the year	**(63,236)**	(272)

No provision has been made for Hong Kong profits tax as the Group has no assessable profit arising from Hong Kong during the current and prior years. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress promulgated the Corporate Income Tax Law of the PRC (the "New Tax Law"), which became effective on 1 January 2008. Further, on 6 December 2007, the State Council released the Implementation Rules to the Corporate Income Tax Law.

According to the New Tax Law, from 1 January 2008, the standard corporate income tax rates for enterprises in the PRC was reduced from 33% to 25%.

In accordance with various approval documents issued by the State Tax Bureau and the Local Tax Bureau of the PRC, 宜昌富連江複合材料有限公司, a wholly-owned subsidiary of the company, established as a wholly foreign-owned enterprise in the PRC, is entitled to an exemption from the PRC state and local corporate income tax ("CIT") for the first two profitable financial years of its operation and thereafter a 50% relief from the state CIT of the PRC for the following three financial years (the "Tax Holiday"). Upon expiry of the Tax Holiday, the usual PRC CIT rate is 25%. No provision for CIT has been made as the subsidiary sustained a loss during the current and prior years.

10. Income tax (continued)

(b) The taxation credit for the year can be reconciled to accounting loss, at applicable tax rates:

	2008 **HK$'000**	2007 HK$'000
(Loss)/profit before income tax	**(1,362,233)**	1,115,386
Taxation (credit)/charge calculated at the statutory PRC tax of 25% (2007: 33%)	**(340,558)**	368,077
Effect of different tax rates of subsidiaries operating in other jurisdictions	**5,335**	6,278
Tax effect of expenses not deductible for taxation purposes	**284,138**	1,798
Tax effect of non-taxable items	**(21,634)**	(377,947)
Tax effect on unused tax losses not recognised	**9,927**	1,842
Tax effect of income not taxable for tax purpose	**(444)**	(320)
Income tax credit for the year	**(63,236)**	(272)

In addition to the income tax recognised in profit or loss, deferred tax relating to the issue of convertible bonds and convertible preferred shares had been charged directly to equity.

11. (Loss)/profit for the year attributable to equity holders of the Company and dividend

The consolidated loss attributable to equity holders of the Company includes a loss of approximately HK$112,279,000 (2007: loss of HK$44,182,000) (Note 30) which has been dealt with in the financial statements of the Company.

The board of directors do not recommend the payment of any dividend for the year ended 31 December 2008 (2007: HK$Nil).

12. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the (loss)/profit for the year attributable to equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted (loss)/earnings per share is based on the (loss)/profit for the year attributable to equity holders of the Company, adjusted to reflect the interest on the convertible bonds and convertible preferred shares and the related income tax effect. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic (loss)/earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

12. (Loss)/earnings per share (continued)

The calculations of the basic and diluted (loss)/earnings per share are based on the following data:

	2008 HK$'000	2007 HK$'000
(Loss)/earnings		
(Loss)/profit for the year attributable to the equity holders of the Company for calculation of basic (loss)/earnings per share	**(1,243,920)**	1,115,983
Interest on convertible bonds	**20,184**	3,700
Interest on convertible preferred shares	**4,764**	794
Income tax effect	**(2,417)**	(272)
(Loss)/profit for the year attributable to the equity holders of the Company for calculation of diluted (loss)/earnings per share	**(1,221,389)**	1,120,205

	2008 '000	2007 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic (loss)/earnings per share	**7,974,443**	6,995,155
Effect of dilution – weighted average number of ordinary shares:		
– Warrants	**–**	138,432
– Convertible bonds	**1,689,435**	1,560,842
– Convertible preferred shares	**2,802,235**	2,802,235
Weighted average number of ordinary shares for the purpose of calculating diluted (loss)/earnings per share	**12,466,113**	11,496,664

No diluted loss per share for the year ended 31 December 2008 is presented because the convertible bonds, convertible preferred shares, warrants and share options are anti-dilutive.

13. Staff costs, including directors' remuneration

	2008	2007
	HK$'000	HK$'000
Wages and salaries	**5,824**	6,346
Share options granted to directors and employees (Note 29)	**43,548**	–
Pension costs – defined contribution plans	**63**	47
	49,435	6,393

14. Director's remuneration and five highest paid individuals

(a) Executive directors and non-executive directors

	Fees	Salaries, allowances and employee share option benefits	Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000
2008				
Executive directors:				
Ms. Ma Zheng	–	2,384	–	2,384
Mr. Chiu Winerthan (Note (i))	–	1,049	6	1,055
Mr. Wong Pui Yiu (Note (ii))	–	617	11	628
	–	4,050	17	4,067
Independent non-executive directors:				
Mr. Wan Tze Fan Terence	132	195	–	327
Mr. Chung Chin Keung (Note (ii))	121	–	–	121
Mr. Liu Weichang	60	195	–	255
	313	390	–	703
2007				
Executive directors:				
Ms. Ma Zheng	1,000	–	–	1,000
Mr. Chiu Winerthan	–	570	12	582
Mr. Yu Hongzhi (Note (iv))	1,100	–	–	1,100
	2,100	570	12	2,682
Independent non-executive directors:				
Mr. Wan Tze Fan Terence	150	–	–	150
Mr. Liu Weichang	30	–	–	30
Mr. Gao Sheng Yu (Note (iii))	30	–	–	30
	210	–	–	210

(i) Resigned on 11 July 2008.
(ii) Appointed on 1 February 2008.
(iii) Retired on 28 April 2008.
(iv) Resigned on 26 November 2007.

14. Director's remuneration and five highest paid individuals (continued)

(a) Executive directors and non-executive directors (continued)

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a director waived or agreed to waive any remuneration during the current and prior years.

(b) Five highest paid individuals

The five highest paid individuals during the year included three (2007: three) directors, details of whose remuneration are set out in Note 14(a) above. Details of the remuneration of the remaining two (2007: two) non-director, highest paid individuals for the year are as follows:

	2008	2007
	HK$'000	HK$'000
Basic salaries, share options and other benefits	**8,940**	888
Discretionary bonuses	**31**	1,186
Retirement benefit scheme contributions	**10**	23
	8,981	2,097

The emoluments fell within the following bands:

	Number of individuals	
	2008	2007
Nil – $1,000,000	**–**	1
HK$1,000,001 – HK$1,500,000	**–**	1
HK$1,500,000 or above	**2**	–

15. *Property, plant and equipment*

Group

	Buildings	**Leasehold improvements**	**Computer equipment**	**Plant and machinery**	**Furniture, fixtures and office equipment**	**Construction in progress**	**Motor vehicles**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007								
Cost	21,754	635	2,413	6,897	213	–	1,130	33,042
Accumulated depreciation	(1,087)	(577)	(669)	(642)	(97)	–	(165)	(3,237)
Exchange difference	395	–	11	91	–	–	12	509
Net carrying amount	21,062	58	1,755	6,346	116	–	977	30,314
Year ended 31 December 2007								
Opening carrying amount	21,062	58	1,755	6,346	116	–	977	30,314
Additions	268	–	113	25	1	–	1,905	2,312
Reclassifications	(2,906)	–	(1,441)	2,912	(85)	–	1,520	–
Disposals	–	–	–	(1,149)	–	–	–	(1,149)
Impairment loss	(2,157)	–	–	(940)	–	–	–	(3,097)
Depreciation	(955)	(58)	(144)	(845)	(17)	–	(688)	(2,707)
Exchange difference	1,792	–	136	541	–	–	84	2,553
Closing carrying amount	17,104	–	419	6,890	15	–	3,798	28,226
At 31 December 2007								
Cost	22,022	635	2,526	6,922	214	–	3,035	35,354
Reclassifications	(2,906)	–	(1,441)	2,912	(85)	–	1,520	–
Accumulated depreciation and impairment losses	(4,199)	(635)	(813)	(3,576)	(114)	–	(853)	(10,190)
Exchange difference	2,187	–	147	632	–	–	96	3,062
Net carrying amount	17,104	–	419	6,890	15	–	3,798	28,226
Year ended 31 December 2008								
Opening carrying amount	17,104	–	419	6,890	15	–	3,798	28,226
Additions	1,741	–	151	290	4	33,538	84	35,808
Written off	–	–	(2)	–	(1)	–	–	(3)
Depreciation	(1,019)	–	(151)	(902)	(10)	–	(909)	(2,991)
Exchange difference	1,073	–	25	432	–	–	238	1,768
Closing carrying amount	18,899	–	442	6,710	8	33,538	3,211	62,808
At 31 December 2008								
Cost	24,386	376	1,384	10,284	111	33,538	5,123	75,202
Accumulated depreciation and impairment losses	(5,223)	(376)	(919)	(3,416)	(103)	–	(1,854)	(11,891)
Exchange difference	(264)	–	(23)	(158)	–	–	(58)	(503)
Net carrying amount	18,899	–	442	6,710	8	33,538	3,211	62,808

15. Property, plant and equipment (continued)

Impairment

In the prior year, the Group carried out a review of the recoverable amount of its factory premise and manufacturing plant and machinery, having regard to its ongoing programme of modernisation and the introduction of new product lines. These assets were used in the Group's manufacture and sale of PE/FRP pipes segments. The review led to the recognition of an impairment loss of HK$3,097,000, which had been recognised in profit or loss for the year ended 31 December 2007. The recoverable amount of the relevant assets had been determined on the basis of their value in use. The discount rate used in measuring value in use was 9% per annum. The impairment loss had been presented on the face of the consolidated income statement for the prior year. There was no impairment for 2008.

The buildings of the Group are located in the PRC and held under a medium term lease.

16. Land use rights

The Group's interest in land use rights represent prepaid operating lease payments and movements in carrying amount are analysed as follows:

	2008	2007
	HK$'000	HK$'000
Outside Hong Kong, held on medium term lease	**32,171**	30,925
Opening carrying amount	**30,925**	29,102
Amortisation	**(694)**	(653)
Exchange difference	**1,940**	2,476
Closing carrying amount	**32,171**	30,925
Less: Current portion included in other receivables, deposits and prepayments	**(694)**	(653)
Non-current portion	**31,477**	30,272

17. Mining rights

The movements in carrying amount of the Group's mining rights are analysed as follows:

	2008	2007
	HK$'000	HK$'000
Opening carrying amount	**–**	–
Acquisition of subsidiaries (Note 31)	**451,806**	–
Amortisation for the year	**(12,552)**	–
Impairment loss*	**(230,814)**	–
Exchange difference	**5,617**	–
Closing carrying amount	**214,057**	–
As at 31 December:		
Cost	**457,423**	–
Accumulated amortisation and impairment loss	**(243,366)**	–
	214,057	–

* A senior management member of the Group has over ten years of comprehensive experience in the field of mining and metal production industries. In valuing the underlying mining rights of the Group's subsidiary and associates, he has, inter alia, duly considered the current market information of the mining industry including the prices of commodities relating to the Group's mining rights.

The mining rights purchased as part of a business combination during the year ended 31 December 2008 is initially recognised at its fair value of HK$451,806,000 with reference to a professional valuation performed by Greater China Appraisal Limited. At subsequent balance sheet dates, the mining rights are measured using the cost model.

Amortisation is provided to write off the cost of the mining rights using the straight-line method over the shorter of their useful life estimated based on the total proven and probable reserves of the mine or contractual period from the date of commencement of commercial production which approximates the date from which they are available for use. The amortisation charge of the mining rights for the year is shown on the face of the consolidated income statement.

17. Mining rights (continued)

There has been a significant decline in the market value of commodities price from the date of the above acquisition to 31 December 2008. The directors consider such decline indicates that the carrying amount of the mining rights has been impaired and an impairment loss of HK$230,814,000 (2007: HK$Nil) has been recognised in the income statement for the year to reduce the carrying value of mining rights to their recoverable amount based on a value-in-use calculation of the business in relation to the mining rights.

The value-in-use calculations of the mining rights are primarily based on the commodity prices relevant to the Group. The percentage decrease in prices for the commodities concerned during the period from 23 April 2008 to 31 December 2008 are as follows:

	2008
	%
Sliver	34%
Lead	25%
Zinc	33%
Tin	23%

Details of the Group's mining rights as at 31 December 2008 were as follows:

Mine	**Location**	**Expiry date**
Munggun-Undur Polymetiallic mine	Mungun-Undur, Khentii Province, Mongolia	10 August 2035

18. Interests in associates

	The Group	
	2008	2007
	HK$'000	HK$'000
Share of net assets	**1,112,008**	2,133,361

18. Interests in associates (continued)

Particulars of the Group's principal associates, all which are unlisted corporate entities, are as follows:

Name of company	Place of establishment and operation	Effective interest and voting power indirectly held	Principal activity
Xin Shougang Zi Yuan Holdings Limited ("Xin Shougang")	The PRC	22.28%	Mining resources development and asset management
長陽新首鋼礦業有限公司*	The PRC	22.28%	Mining resources development and asset management

* Wholly-owned subsidiary of Xin Shougang

The above associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

Summarised financial information in respect of the Group's associates is set out below:

	2008 HK$'000	2007 HK$'000
Total assets	**5,214,872**	9,821,567
Total liabilities	**(223,813)**	(246,338)
Net assets	**4,991,059**	9,575,229
Group's share of associates' net assets	**1,112,008**	2,133,361

18. Interests in associates (continued)

	2008 **HK$'000**	2007 HK$'000
Revenue for the year	**1,192**	1,112
Loss for the year	**(5,186,593)**	(78,646)
Group's share of associates' loss for the year	**(1,155,573)**	(17,522)
Excess of the Group's share of the net fair value of the interests in associates acquired over the cost of the acquisition	**–**	1,156,892
Group's share of profits less losses of associates	**(1,155,573)**	1,139,370

Recognition of interests in associates in 2007

On 26 October 2007, the Group, through Yichang Shoukong Industries Co. Ltd., its wholly-owned subsidiary, acquired from Great Ocean Real Estate Limited (the "Vendor") (i) 22.28% equity interest in Xin Shougang which owned 65%, 45% and 48% of the equity interest in 宜昌新首鋼房地產開發有限公司, 首鋼京秦礦業有限公司 and 宜昌新首鋼貴金屬礦業有限公司 respectively at the date of the acquisition (collectively referred to as the "Xin Shougang Group"); and (ii) a call option to acquire additional 12.72% equity interest in Xin Shougang (the "Call Option"), which are collectively referred as the Acquisition. Xin Shougang was engages in mining business located in Yichang, the PRC and investment holdings. An aggregate consideration of HK$971 million for the Acquisition was satisfied upon the completion of the Acquisition in the following manner:

(a) a sum of HK$18 million, which was satisfied in cash and was paid by the Group as a deposit as at 31 December 2006.

(b) a sum of HK$953 million, which was satisfied by the Company's allotment and issue of 2,802 million convertible preferred shares of the Company (the "CPS") (Note 27) to the Vendor, upon the completion of the Acquisition.

In the prior year, 長陽新首鋼礦業有限公司 was newly established as a wholly-owned subsidiary of Xin Shougang during the prior year and subsequent to the Acquisition. The Xin Shougang Group's businesses had commenced in prior year but not generated any revenue thereof.

18. *Interests in associates (continued)*

Recognition of interests in associates in 2007 (continued)

The cost of the acquisition is measured as the aggregate of the fair values, at the date of the acquisition, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for acquired equity interest of the Xin Shougang Group, plus any costs directly attributable to the business combination.

As 宜昌新首鋼貴金屬礦業有限公司 was also a 52%-owned subsidiary of the Group prior to the Acquisition, the acquisition of the effective 10.7% equity interest of 宜昌新首鋼貴金屬礦業有限公司 in the Acquisition was accounted for as the Group's acquisition of additional equity interest in this subsidiary. The Group's interests in associates are attributable to the Group's share of interest in the Xin Shougang Group excluding 宜昌新首鋼貴金屬礦業有限公司. Out of the above acquisition cost of HK$971 million, the directors considered that HK$1 million and HK$970 million were attributable to the acquisitions of additional interest in the subsidiary and interests in associates, respectively.

The fair values of the interests in associates acquired by the Group in the Acquisition are as follows:

(i) The net fair value of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associates (the Xin Shougang Group excluding the interest in 宜昌新首鋼貴金屬礦業有限公司) was determined by the directors at HK$2,151 million based on the adjustment of the fair value of mining rights granted by the local government to Xin Shougang (amounted to RMB9,000 million, equivalent to HK$9,574 million), from the net assets of the associates as at date of the completion of the Acquisition (amounted to HK$79 million).

The fair value of the mining rights is estimated by the directors by reference to a valuation report dated 18 March 2008 prepared by Greater China Appraisal Limited, independent professionally qualified valuers. The fair value of the mining rights was determined by employing the discounted cash flow method.

(ii) The fair value of the Call Option on the date of issue is estimated at HK$Nil by the directors by reference to a valuation report dated 18 March 2008 prepared by Greater China Appraisal Limited. The Call Option is an option of the Company to acquire additional 12.72% equity interest in Xin Shougang at any time during the 2-year period from 26 October 2007 to 25 October 2009, and the consideration for acquisition of such additional equity interest in Xin Shougang shall be subject to further agreement between the Group and the Vendor upon exercise of the Call Option. The fair value of the Call Option was determined by employing the Binomial Option Pricing model.

(Expressed in Hong Kong dollars)

18. Interests in associates (continued)

Recognition of interests in associates in 2007 (continued)

Taking into account other direct costs attributable to the Acquisition of HK$24 million, the consideration for the acquisition of interests in associates of HK$970 million and the Group's share of fair value of associates upon the completion of the Acquisition of HK$2,151 million as mentioned in (i) and (ii) above, an excess of the Group's interest in the identifiable assets, liabilities and contingent liabilities of the acquired associates over the aggregate cost of Acquisition of HK$1,157 million is credited to the share of profits less losses of associates for the year ended 31 December 2007.

Recognition of losses by associates and the Group's share of losses in 2008

There has been a significant decline in the market value of commodities price during the year. The directors consider such decline indicates that the carrying amount of the mining rights and intangible assets of the associates and therefore a value-in-use calculation of the business in relation to the mining rights and intangible assets of the associates was carried out by the Group, resulting in the impairment in such mining rights and intangible assets of the associates which was included in the net loss of the associates for the year of HK$5,187 million.

The value-in-use calculations of the mining rights are primarily based on the commodity prices relevant to the Group. The percentage decrease in prices for the commodities concerned during the period from 1 January 2008 to 31 December 2008 are as follows:

	2008
	%
Iron	25%
Vanadium	15%
Manganese	65%

19. Investments in subsidiaries and amounts due from/to subsidiaries

	The Company	
	2008 **HK$'000**	2007 HK$'000
Unlisted shares/investments, at cost	**470,749**	319,181
Less: provision for impairment	**(49,483)**	(7,329)
	421,266	311,852
Amounts due from subsidiaries	**1,127,972**	1,070,744
Less: provision for impairment	**(105,909)**	(105,909)
	1,022,063	964,835
Amounts due to subsidiaries	**(157,910)**	(213,941)

Amounts due from/to subsidiaries are unsecured, interest free and repayable on demand.

Impairment provisions of HK$49,483,000 (2007: HK$7,329,000) and HK$105,909,000 (2007: HK$105,909,000) respectively were recognised as at 31 December 2008 because the related recoverable amounts of the investment costs and amounts due from subsidiaries with reference to the net assets or net deficit of the respective subsidiaries were estimated to be less than their carrying amounts. Accordingly, the carrying amounts of the related investment costs in subsidiaries and amounts due from them are reduced to their recoverable amounts.

Particulars of the Company's principal subsidiaries as at 31 December 2008 were as follows:

Name of company	Country of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Principal activity
e-gameasia.com Ltd	The British Virgin Islands ("BVI")/ Hong Kong	10,279,450 ordinary shares of HK$1 each	100%	100%	–	Investment holding
Billybala Software (BVI) Limited	BVI/ Hong Kong	1 ordinary share of US$0.01 each	100%	100%	–	Investment holding
宜昌富連江複合材料有限公司 (Note (i))	PRC	HK$62,380,000	100%	–	100%	Trading of merchandise and production of PE/FRP pipes

(Expressed in Hong Kong dollars)

19. Investments in subsidiaries and amounts due from/to subsidiaries (continued)

			Proportion of ownership interest			
Name of company	**Country of incorporation/ establishment and operation**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by subsidiary**	**Principal activity**
Shoukong Group Limited	BVI/ Hong Kong	20,000,000 ordinary shares of US$1 each	100%	100%	–	Investment holding
Sure Whole Investments Limited	BVI	20,000,000 ordinary shares of US$1 each	100%	100%	–	Inactive
Yichang Shoukong . Industries Co., Ltd (Note (i))	PRC	HK$250,000,000	100%	–	100%	Investment holding
宜昌新首鋼貴金屬礦業有限公司 (Note (ii))	PRC	RMB10,000,000	62.7%	–	62.7%	Inactive (In the process of de-registration)
Zhong Ping Resources Holdings Limited ("Zhong Ping")	BVI/ Hong Kong	75,000,000 ordinary shares of HK$1 each	100%	100%	–	Investment holding
ARIA LLC (Note (iii))	Mongolia	1,330,000 ordinary shares of US$1 each	70%	–	70%	Mining resources development

Notes:

(i) The subsidiary is registered as a wholly-foreign-owned enterprise under the PRC law.

(ii) In prior year, an additional 10.7% equity interest in this subsidiary was acquired by the Group in the Acquisition at a consideration of HK$1 million (Note 18). During the year, the shareholders have resolved to have this subsidiary de-registered and deregistration is in progress as at the date of approval of these financial statements.

(iii) During the year, a 70% equity interest in this subsidiary was acquired by the Group, Details are set out in Note 31 to the financial statements. This subsidiary was incorporated in Mongolia with limited liability.

The subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

20 Other receivables, deposits and prepayments and loan receivables

	The Group	
	2008	2007
	HK$'000	HK$'000
Other receivables and deposits	**103,609**	16,202
Prepayments	**967**	13,666
	104,576	29,868
Less: Provision for impairment loss on prepayments	**(273)**	(273)
	104,303	29,595
Less: Current portion (Note b)	**(12,841)**	(13,634)
Non-current portion (Note a)	**91,462**	15,961

(a) As at 31 December 2007, earnest money of HK$15,000,000 and a refundable deposit of HK$961,000 had been paid by the Group for the acquisition of Zhong Ping. Further details are disclosed in the announcement of the Company dated 17 March 2008. On 23 April 2008, the acquisition of Zhong Ping was completed and the above earnest money and refundable deposit were utilised as part of the consideration for the acquisition, details of which are set out in Note 31 to the financial statements.

As at 31 December 2008, the Group paid an aggregate deposits of RMB58,000,000 (equivalent to HK$65,574,000) to an intermediate agent for a possible acquisition of an interest in a mine located in the PRC. The Group also paid deposits of HK$25,888,000 for acquisition of items of property, plant and equipment.

The above balances were shown under the non-current assets as at the respective balance sheet dates.

(b) As at 31 December 2008, included in other receivables under current assets was a loan of HK$9,045,000 due from a third party (2007: HK$Nil). This loan was interest-bearing at 1% plus daily PRC bank deposit rates per annum, unsecured and repayable on 7 March 2009, which was fully settled on 13 March 2009.

21. Inventories

	The Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**8,115**	358
Work in progress	**4**	–
Finished goods	**973**	80
	9,092	438

22. Trade receivables

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to over three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. As at 31 December 2008, two major customers accounted for most of the total trade receivables of the Group. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	The Group	
	2008	2007
	HK$'000	HK$'000
Within 30 days	**3,729**	–
31 – 60 days	**4,669**	–
61 – 90 days	**13,532**	–
Over 90 days	**23,151**	–
	45,081	–

At 31 December 2008, all of the Group's trade receivables were neither past due nor impaired which related to customers for whom there was no recent history of default. Consequently, no allowance for doubtful debts was recognised therefor as at the balance sheet date.

23. Cash and cash equivalents

At the balance sheet date, cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$64,281,000 (2007: HK$87,367,000). The RMB is not freely convertible into other currencies, however, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of cash and cash equivalents approximate their fair values.

24. Trade payables

An ageing analysis of trade payables, based on the invoice date, is as follows:

	The Group	
	2008	2007
	HK$'000	HK$'000
Within 30 days	**1,494**	68
31-60 days	**1,661**	–
61-90 days	**13**	–
Over 90 days	**10**	–
	3,178	68

25. Convertible bonds

The Group's and the Company's outstanding convertible bonds as at 31 December 2008 and 2007 are as follows:

(i) The 4.5% convertible bonds were issued to Lehman Brothers Commercial Corporation Asia Limited (In Liquidation) ("Lehman Brothers") on 31 October 2007 with nominal value of HK$246,250,000 and shall be redeemed at the maturity date on 31 October 2010. The bonds are convertible into ordinary shares of the Company at an initial conversion price of HK$0.2 per conversion share (subject to adjustments in accordance with the terms of the convertible bonds) at any time during the period commencing from the date of issue of convertible bonds. The convertible bonds can be converted into 1,247,338,197 ordinary shares of the Company. Coupon interest of 4.5% per annum will be paid semi-annually in arrears until the settlement date.

The Company has no right to make early redemption without the consent of Lehman Brothers or its designated affiliates.

Interest rate on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 9.11% per annum and the carrying value of the convertible bond is HK$232,552,000 (2007: HK$220,294,000) as at 31 December 2008.

In 2008, Lehman Brothers was put into liquidation and provisional liquidators were appointed therefor. The liquidation of Lehman Brothers is still in progress as of the date of approval of these financial statements. In the opinion of the directors, the liquidation of Lehman Brothers has no significant impact to the Group's financial statements for the year.

25. Convertible bonds (continued)

(ii) The 1% convertible bonds were issued to Future Advance Holdings Limited ("Future Advance"), a substantial shareholder of the Company, on 27 April 2006 with nominal value of $6,270,000 and maturity date on 26 April 2009. The bonds are convertible into ordinary shares of the Company at an initial conversion price of HK$0.4 per conversion share (subject to adjustments in accordance with the terms of the convertible bonds) at any time during the period commencing from six months on the date following the date of issue of convertible bonds up to maturity date. After the share subdivision effective on 1 August 2006, the conversion price was adjusted to HK$0.02 per conversion share. The convertible bonds can be converted into 313,503,280 ordinary shares of the Company.

The Company may at any time before the maturity date redeem the convertible bonds at par. Coupon interest of 1% per annum will be paid annually until the settlement date.

Interest rate on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 7.474% per annum and the carrying value of the convertible bonds is HK$6,228,000 (2007: HK$5,813,000) as at 31 December 2008.

The fair value of the liability component included in the above convertible bonds was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in equity, net of deferred taxes.

25. Convertible bonds (continued)

The convertible bonds recognised in the balance sheet are calculated as follows:

	Group and Company	
	2008	2007
	HK$'000	HK$'000
Nominal value of convertible bonds	**252,520**	252,520
Equity component	**(23,226)**	(23,226)
Direct transaction costs attributable to the liability component	**(7,087)**	(7,087)
Liability component on initial recognition	**222,207**	222,207
Accumulated interest expenses recognised	**24,146**	3,962
Accumulated interest paid	**(7,573)**	(62)
Liability component at 31 December	**238,780**	226,107
Less: current portion	**(6,228)**	–
Non-current portion	**232,552**	226,107

26. Deferred tax liabilities

The movements for the year in the net deferred tax assets/(liabilities) were as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
At beginning of year	**(152,211)**	(19)	**(152,192)**	–
Credited to profit or loss (Note 10)	**63,537**	272	**2,417**	272
Acquisition of subsidiaries (Note 31)	**(94,144)**	–	**–**	–
Charged to equity	**–**	(152,464)	**–**	(152,464)
At end of year	**(182,818)**	(152,211)	**(149,775)**	(152,192)

The Group has tax losses arising in Hong Kong of HK$11,666,000 (2007: HK$52,145,000) and the PRC of HK$15,787,000 (2007: HK$9,009,000) that are available for offsetting against future taxable profits of the companies in which the losses arose indefinitely and for 5 years, respectively. Deferred tax assets have not been recognised in respect of these losses as they have arisen in group companies that have been loss-making for some years.

The Group had the following respective estimated unused tax losses arising in the PRC, which will expire as follows:

	2008	2007
	HK$'000	HK$'000
Year of expiry		
2009	**553**	553
2010	**482**	482
2011	**794**	794
2012	**7,180**	7,180
2013	**6,778**	–
	15,787	9,009

No deferred tax asset has been recognised (2007: HK$Nil) as at 31 December 2008 as the availability of future taxable profits to utilise the temporary differences is not probable.

27. *Convertible preferred shares*

The Group and the Company

On 26 October 2007, the authorised convertible preferred shares (the "CPS") capital of HK$5 million divided into 4,000,000,000 CPS of $0.00125 each was created by the reclassification of the authorised ordinary shares capital (Note 28(i)). As part of the consideration for the Acquisition as mentioned in Note 18 to the financial statements, the Company allotted and issued 2,802,235,294 CPS (Note 18) at HK$0.34 per CPS. The CPS recognised in the balance sheet is calculated as follows:

	Number of CPS	**Equity component** HK$'000	**Liability component** HK$'000	**Total** HK$'000
Issue of CPS during the year	2,802,235,294	902,562	50,198	952,760
Deferred tax arising from equity component		(148,923)	–	(148,923)
Imputed interest (Note 8)	–	–	794	794
At 31 December 2007	2,802,235,294	753,639	50,992	804,631
Imputed interest (Note 8)	–	–	4,764	4,764
At 31 December 2008	2,802,235,294	753,639	55,756	809,395

Interest rate on the CPS is calculated using the effective interest method by applying the effective interest rate of 9.49% per annum.

27. Convertible preferred shares (continued)

The principal terms of the CPS are set out below:

(a) The holders of the CPS are not entitled to vote at any general meeting of the Company.

(b) Each CPS shall be entitled to receive a fixed cumulative dividend on an annual basis in arrears in preference to any dividend on the ordinary share at a rate of 0.5% per annum of the principal amount of the CPS then outstanding at the year end date.

(c) Holders of the CPS shall have the right to convert, at any time from the date of allotment of the CPS without payment of any additional consideration, into ordinary shares of $0.00125 each at the initial conversion rate of 1:1 (subject to adjustments from time to time pursuant to the terms of the CPS).

(d) Upon the value of the cumulative dividends to be distributed by Xin Shougang to the Group (the "Dividends") reaches HK$485.5 million or the Group has disposed of its interest in Xin Shougang at the disposal consideration of more than HK$485.5 million in aggregate without incurring any losses on the disposal or the total of the cumulative Dividends and the disposal consideration is more than HK$485.5 million without incurring any losses on the disposal, the Company may at any time redeem in cash not more than half of the CPS issued at a price equal to their principal amount plus a premium of 10% per annum together with any accrued and unpaid dividends of CPS thereon.

(e) The CPS rank preference to any and other classes of ordinary shares of the Company (including dividend distribution, capital distribution, return of capital upon the liquidation, winding up or dissolution of the Company or otherwise).

28. Share capital

		Number of shares of HK$0.00125 each		Share capital	
		2008	2007	**2008**	2007
	Notes	**’000**	’000	**HK$’000**	HK$’000
Authorised:					
Ordinary shares					
at beginning of year		**96,000,000**	100,000,000	**120,000**	125,000
Reclassification	(i)	**–**	(4,000,000)	**–**	(5,000)
Ordinary shares at end of year		**96,000,000**	96,000,000	**120,000**	120,000

		Number of shares of HK$0.00125 each		Share capital	
		2008	2007	**2008**	2007
	Notes	**’000**	’000	**HK$’000**	HK$’000
Issued and fully paid:					
Ordinary shares					
at beginning of year		**7,475,355**	6,815,267	**9,344**	8,519
Issues of new shares	31	**722,000**	–	**903**	–
Exercise of warrants	(ii)	**–**	484,088	**–**	605
Exercise of share options	(iii)	**–**	176,000	**–**	220
Ordinary shares at end of year		**8,197,355**	7,475,355	**10,247**	9,344

28. *Share capital (continued)*

Notes:

(i) Reclassification

Pursuant to an ordinary resolution passed on 2 October 2007, the authorised share capital of HK$125,000,000 was reclassified from 100,000,000,000 ordinary shares of HK$0.00125 each to (a) 96,000,000,000 ordinary shares of HK$0.00125 each and (b) 4,000,000,000 CPS of HK$0.00125 each (Note 27). The ordinary shares shall have the same rights and restrictions attached thereto as are the ordinary shares immediately prior to the reclassification of the share capital of the Company.

(ii) Exercise of warrants

On 4 June 2007, 11,000,000 warrants were exercised to subscribe for 11,000,000 ordinary shares of the Company at a consideration of HK$2,915,000 of which HK$13,750 was credited to share capital and the balance of HK$2,901,250 was credited to the share premium account. An amount of HK$132,000 had been transferred from the warrants reserve to the share premium account.

On 2 October 2007, 23,654,400 warrants were exercised to subscribe for 473,088,000 ordinary shares of the Company at a consideration of HK$7,096,320 of which HK$591,360 was credited to share capital and the balance of HK$6,504,960 was credited to the share premium account. An amount of HK$473,088 was transferred from the warrants reserve to the share premium account.

(iii) Exercise of share options

From 7 August 2007 to 7 September 2007, all of the 8,800,000 share options granted by the Company as at 31 December 2006 were exercised to subscribe for 176,000,000 ordinary shares of the Company at an aggregate consideration of HK$9,328,000 of which HK$220,000 was credited to share capital and the balance of HK$9,108,000 was credited to the share premium account. An amount of HK$1,531,000 had been transferred from the warrants reserve to the share premium account.

29. Share options scheme

As at 31 December 2008 and 2007, the Group maintains a share options scheme for employee compensation. All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options.

(i) On 17 March 2004, the Company forfeited all the outstanding share options granted from a Pre-IPO share option scheme (the "Pre-Scheme") adopted by the Company on 28 November 2001, and that all outstanding share options granted from the Pre-Scheme were cancelled and extinguished. As at 31 December 2008, there were no share options outstanding under the Pre-Scheme.

(ii) On 28 November 2001, a further share options scheme (the "Post-Scheme") was approved pursuant to a written resolution of the Company. The purpose of the Post-Scheme is to enable the Group to grant options to selected persons as incentives or rewards for their contribution to the Group. The board of directors may, at their discretion, grant options to any full-time employee and any director of the Company or its subsidiaries, including executive, non-executive and independent non-executive directors, to subscribe for shares of the Company. The total number of shares which may be issued upon exercise of all outstanding options granted and yet-to-be exercised under the Post-Scheme and other schemes by the Company must not exceed 30% of the shares in issue from time to time. A non-refundable nominal consideration of HK$1 is payable by the grantee upon acceptance of an option. The subscription price for shares under the Post-Scheme may be determined by the board of directors at its absolute discretion but in any event will not be less than the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day and (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date for grant of the relevant options.

29. Share options scheme (continued)

(ii) (continued)

Any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value in excess of HK$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

In addition, any share options granted to any one person in excess of 1% of the shares of the Company in issue at any time within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The options granted may be exercised at any time or times during a period of not less than 3 years to be notified by the board of directors and in any event no later than 10 years from the date of the grant of the options.

The Post-Scheme remains in force for a period of 10 years with effect from 28 November 2001. At 31 December 2007, all outstanding options were exercised and no option was issued during the year.

At 31 December 2008, there were outstanding 586,000,000 share options and no share option was exercised during the year. During the year, 681,000,000 share options were granted of which 95,000,000 share options lapsed.

Details of the share options conditionally granted by the Company pursuant to the Post-Scheme and the movements of options during the year were as follows:

29. Share options scheme (continued)

(ii) (continued)

Grantees	Date of grant	Balance as at 1 January 2008	Granted during the year '000	Exercised during the year '000	Lapsed during the year '000	Balance as at 31 December 2008 '000	Period during which the options are exercisable	Exercise price per share
Ms. Ma Zheng (Director)	8 January 2008	–	20,000	–	–	20,000	8 July 2008 to 27 November 2011	HK$0.22
Mr. Chiu Winerthan (Ex-Director)	8 January 2008	–	10,000	–	(10,000)	–	8 July 2008 to 27 November 2011	HK$0.22
Mr. Wan Tze Fan Terence (Director)	8 January 2008	–	3,000	–	–	3,000	8 July 2008 to 27 November 2011	HK$0.22
Mr. Li Weichang (Director)	8 January 2008	–	3,000	–	–	3,000	8 July 2008 to 27 November 2011	HK$0.22
Employees	8 January 2008	–	645,000	–	(85,000)	560,000	8 July 2008 to 27 November 2011	HK$0.22
		–	681,000	–	(95,000)	586,000		

(Expressed in Hong Kong dollars)

29. Share options scheme (continued)

In total, HK$43,548,000 (2007: HK$Nil) (Note 13) of employee compensation expense was included in the consolidated income statement, the corresponding amount of which had been credited to employee compensation reserve. No liability was were recognised on the equity-settled share-based payment transactions.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2008
Dividend yield (%)	**2.3667**
Expected volatility (%)	**54.655**
Historical volatility (%)	**54.655**
Risk-free interest rate (%)	**2.937**
Expected life of options (year)	**3.89**
Weighted average share price (HK$)	**0.22**

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the balance sheet date and the date of approval of these financial statements, the Company had 586,000,000 share options outstanding under the Post-Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 586,000,000 additional ordinary shares of the Company and additional share capital of HK$732,500 and share premium of HK$128,188,000 (before issue expenses).

30. Reserves

Company

	Share premium account (Note) HK$'000	Convertible bonds reserve HK$'000	Employee compensation reserve HK$'000	Convertible preferred shares reserve HK$'000	Warrants reserve HK$'000	Accumulated losses HK$'000	Total reserves HK$'000
Balance at 1 January 2007	154,714	1,063	1,531	–	8,224	(86,015)	79,517
Issue of shares on exercise of share options (Note 28)	10,639	–	(1,531)	–	–	–	9,108
Issue of shares on exercise of warrants (Note 28)	10,011	–	–	–	(605)	–	9,406
Issue of convertible bonds and convertible preferred shares (Notes 25 and 27)	–	22,163	–	902,562	–	–	924,725
Issue expenses for convertible bonds	–	(700)	–	–	–	–	(700)
Deferred tax arising from equity components of convertible bonds and convertible preferred shares (Notes 25 and 27)	–	(3,541)	–	(148,923)	–	–	(152,464)
Loss for the year (Note 11)	–	–	–	–	–	(44,182)	(44,182)
Balance at 31 December 2007 and at 1 January 2008	175,364	18,985	–	753,639	7,619	(130,197)	825,410
Release of reserve upon lapse of share options (Note 29)	–	–	(5,517)	–	–	5,517	–
Recognition of equity-settled share-based compensation (Note 29)	–	–	43,548	–	–	–	43,548
Issue of shares on acquisition of subsidiaries (Note 31)	107,398	–	–	–	–	–	107,398
Loss for the year (Note 11)	–	–	–	–	–	(112,279)	(112,279)
Balance at 31 December 2008	282,762	18,985	38,031	753,639	7,619	(236,959)	864,077

30. Reserves (continued)

Note: The share premium account of the Company includes: (i) the premium arising from issue of shares of the Company at a premium less share issue expenses; and (ii) the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group reorganisation over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

31. Acquisition of subsidiaries

On 23 April 2008, the Group acquired 100% of the issued share capital of Zhong Ping for a consideration of HK$148,381,000. This transaction has been accounted for by the acquisition method of accounting. Zhong Ping and its 70%-owned subsidiary, ARLA LLC, (collectively referred to as the "Zhong Ping Group") engage in mining related business in Mongolia. Further details are set out in the Company's circular dated 7 April 2008.

The consideration was satisfied as to cash of HK$40,080,000 and as to HK$108,301,000 by the allotment and issue of 722,000,000 new ordinary shares of the Company on the date of completion (Note 28).

31. Acquisition of subsidiaries (continued)

The net assets acquired in the transaction, and the excess of the Group's share of net fair value over the cost of acquisition arising therefrom, are as follows:

	Notes	Acquiree's carrying amount before combination HK$'000	Fair value adjustments HK$'000	Fair value HK$'000
Net assets acquired:				
Mining rights	17	75,229	376,577	451,806
Other receivables		21	–	21
Cash and cash equivalents		134	–	134
Other payables		(263)	–	(263)
Deferred tax liabilities	26	–	(94,144)	(94,144)
Minority interests		(3,148)	(84,730)	(87,878)
		71,973	197,703	269,676
Expenses incurred for the acquisition of the Zhong Ping Group				(3,185)
Excess of the Group's share of net fair value of the interests in subsidiaries acquired over the cost of the acquisition				(118,110)
Total consideration				148,381
Consideration satisfied by:				
Cash paid during the year				24,119
Deposits paid (Note 20)				15,961
Shares of the Company – at fair value*				108,301
				148,381
Net cash outflow arising on acquisition:				
Consideration paid in cash				(24,119)
Cash paid for the cost directly attributable to the acquisition				(3,185)
Cash and cash equivalent balances acquired				134
				(27,170)

31. Acquisition of subsidiaries (continued)

* The fair value of the 722,000,000 ordinary shares of the Company issued as part of the consideration was determined with reference to the market share price of HK$0.15 of the Company's shares at the acquisition date, at the total fair value of HK$108,301,000 of which HK$903,000 was credited to share capital and the remaining balance of HK$107,398,000 was credited to the share premium account.

The Zhong Ping Group has not commenced of the mining operation since its acquisition and therefore Zhong Ping Group has not contributed any amount to the Group's turnover during the year. The Zhong Ping Group contributed HK$182,365,000 to the consolidated loss for the year ended 31 December 2008.

Had the combination taken place at the beginning of the year, the loss of the Group for the year would have been HK$185,392,000.

32. Significant non-cash transactions

During the prior year, the Group utilised long term deposits of HK$18,627,000 as part of the consideration for the Acquisition.

During the current year, the Group utilised long-term deposits of HK$15,961,000 as part of the consideration for the acquisition of equtity interest in the Zhong Ping Group (Note 20).

33. Capital commitments

The Group

Capital commitments outstanding at the balance sheet date not provided for in the financial statements were as follows:

	The Group	
	2008	2007
	HK$'000	HK$'000
Property, plant and equipment contracted but not provided for	**84,222**	–
Property, plant and equipment authorised but not contracted for	**46,194**	–
Proposed investment in an associate contracted but not provided for	**8,950**	3,240
Proposed investment in a venture contracted but not provided for	**–**	182,959
	139,366	186,199

The Company

The Company does not have any significant capital commitments.

34. Operating lease arrangements

The Group

The Group is the lessee in respect of certain of its office premises held under operating leases. The leases typically run for an initial period of one to three years at fixed rental. None of the leases includes contingent rentals.

	The Group	
	2008	2007
	HK$'000	HK$'000
Minimum lease payments under operating leases recognised as an expense in the year (Note 9)	**2,530**	743

34. Operating lease arrangements (continued)

At the balance sheet date, the Group had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

	The Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**2,455**	721
After one year but within five years	**1,891**	947
	4,346	1,668

The Company

The Company does not have any significant operating lease commitment.

35. Contingent liabilities

Environmental contingencies

To date, the Group has not incurred any significant expenditure for environmental remediation, and is currently not involved in any environmental remediation, and has not accrued any further amounts for environmental remediation relating to its operations. Under the existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group and therefore, no provision was made therefor as at 31 December 2008. The Mongolian government, however, has moved, and may move further towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include (i) the exact nature and extent of the contamination at various sites including, but not limited to mines and land development areas, whether operating, closed or sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The exact amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under future environmental legislation cannot reasonably be estimated at present, and could be material.

36. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

(a) During the year and in the ordinary course of business, the Group had the following material transaction with a related party which is not a member of the Group:

	2008	2007
	HK$'000	HK$'000
Shareholder		
Convertible bonds interest paid	**415**	406

Note: The Company's convertible bonds interest was paid to Future Advance. Details of the terms of the convertible bonds issued to Future Advance are set out in Note 25(ii) to the financial statements.

(b) Members of key management during the year comprised only of the directors whose remuneration is set out in Note 14(a) to the financial statements.

37. Capital risk management

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of debts, which includes the convertible bonds and convertible preferred shares disclosed in Notes 25 and 27 respectively, cash and cash equivalents disclosed in Note 23 and equity attributable to equity holders of the Company, comprising share capital and reserves as disclosed in Note 28 and consolidated statement of changes in equity, respectively.

The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of 5% to 10% determined as the proportion of net debts to equity. Based on the management's recommendations, the Group expects to increase its gearing ratio closer to approximately 5% through the issue of new debts and the payment of dividends if it is applicable.

The gearing ratio at the year end was as follows:

	2008	2007
	HK$'000	HK$'000
Debts	**294,536**	277,099
Cash and cash equivalents	**(99,361)**	(294,063)
Net debts	**195,175**	(16,964)
Equity	**1,183,104**	2,084,581
Net debts to equity ratio	**16.5%**	N/A

38. Financial risk management

The main risks arising from the Groups' financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a certain concentration of credit risk as 64% (2007: 96%) of the total trade receivables was due from the Group's largest customer.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Notes 22 and 20 respectively.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

38. Financial risk management (continued)

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

Group	**Carrying amount**	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 1 year but less than 5 years**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2008					
Convertible bonds	**238,780**	**270,003**	**17,425**	**252,578**	**–**
Trade payables	**3,178**	**3,178**	**3,178**	**–**	**–**
Other payables and accruals	**14,596**	**14,596**	**14,596**	**–**	**–**
	256,554	**287,777**	**35,199**	**252,578**	**–**
2007					
Convertible bonds	226,107	281,781	11,778	17,425	252,578
Trade payables	68	68	68	–	–
Other payables and accruals	2,038	2,038	2,038	–	–
	228,213	283,887	13,884	17,425	252,578

38. Financial risk management (continued)

(b) Liquidity risk (continued)

Company	**Carrying amount**	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2008					
Convertible bonds	**238,780**	**270,003**	**17,425**	**252,578**	**–**
Amount due to subsidiaries	**157,910**	**157,910**	**157,910**	**–**	**–**
Other payables and accruals	**724**	**724**	**724**	**–**	**–**
	397,414	**428,637**	**176,059**	**252,578**	**–**
2007					
Convertible bonds	226,107	281,781	11,778	17,425	252,578
Amount due to subsidiaries	213,941	213,941	213,941	–	–
Other payables and accruals	1,001	1,001	1,001	–	–
	441,049	496,723	226,720	17,425	252,578

The above tables do not include the liability component of the Company's CPS which amounted to HK$55,756,000 and HK$50,992,000 as at 31 December 2008 and 2007 respectively. Annual interest of HK$4,764,000 is payable on the CFS. Details are disclosed in Note 27.

(c) Interest rate risk

The Group's fair value interest-rate risk mainly arises from convertible bonds and convertible preferred shares as disclosed in Notes 25 and 27 respectively. The convertible bonds and convertible preferred shares were issued at fixed rates which expose the Group to fair value interest-rate risk. The Group has no cash flow interest-rate risk as there are no borrowings which bear floating interest rates. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

38. Financial risk management (continued)

(d) Currency risk

The Group primarily operated in the PRC and most of its transactions are denominated and settled in RMB. Whilst the Company was based in Hong Kong and transacts primarily in Hong Kong dollar, its activities were mostly separate and independent from those of the overseas operation. Accordingly, the Group did not have a significant exposure to currency risk.

(e) Price risk- Commodity price risk

The Group is principally engaged in the mining business. The minerals markets are influenced by global as well as regional supply and demand conditions. A change in prices of minerals products could significantly affect the Group's financial performance. The Group historically has not used any commodity derivative instruments to hedge the potential price fluctuations of products and does not have a fixed policy to do so in the foreseeable future.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007.

39. Summary of financial assets and financial liabilities by category

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2008 and 2007 may be categorised as follows:

	2008	2007
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**156,589**	294,244
Financial liabilities		
Financial liabilities measured at amortised cost	**312,310**	279,205

Financial Summary

(Expressed in Hong Kong dollars)

The following is a summary of the consolidated results and assets and liabilities of the Group, prepared for the last five years, as extracted from the audited consolidated financial statements of the Group. This summary does not form part of the audited financial statements.

Results

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**72,770**	31,826	34,806	24,614	7,038
Other revenue	**7,524**	1,601	1,077	27,995	224
Operating expenses	**(148,920)**	(52,917)	(41,440)	(29,062)	(12,725)
Impairment loss on mining rights	**(230,814)**	–	–	–	–
Excess of the Group's share of the net fair value of the interests in subsidiaries acquired over the cost of acquisition	**118,110**	–	–	–	–
Share of (losses)/profit, net of associates	**(1,155,573)**	1,139,370	–	–	–
Operating (loss)/profit	**(1,336,903)**	1,119,880	(5,557)	23,547	(5,463)
Finance costs	**(25,330)**	(4,494)	(301)	(159)	(11)
(Loss)/profit before income tax	**(1,362,233)**	1,115,386	(5,858)	23,388	(5,474)
Income tax credit/(charge)	**63,236**	272	(135)	(6)	(195)
Net (loss)/profit for the year	**(1,298,997)**	1,115,658	(5,993)	23,382	(5,669)

Assets and Liabilities

	31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**1,678,232**	2,515,997	175,662	65,065	8,235
Total liabilities	**(495,128)**	(431,416)	(8,050)	(8,733)	(4,019)
	1,183,104	2,084,581	167,612	56,332	4,216