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8 June 2010

The Board of Directors
China Primary Resources Holdings Limited
Suite 1415, Ocean Centre
Tsim Sha Tsui
Kowloon
Hong Kong

Dear Sirs,

We set out below our report on the financial information of China Primary Resources Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) (the “Financial Information”) for the three years ended 31 December 2007, 2008 and 2009 (the “Relevant Periods”), prepared on the basis set out in note 3 of Section (III) below, for inclusion in the circular of the Company dated 8 June 2010 (the “Circular”) in connection with the proposed disposal of 12.21% interest in the registered paid up capital of Xin Shougang Zi Yuan Holdings Limited (the “Xin Shougang”).

The Company is a limited liability company incorporated in the Cayman Islands, as at exempted company under the Companies Law (2001 Revision) of the Cayman Islands on 5 September 2001. The Company’s shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company’s registered office is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is at Suite 1415, Ocean Centre, 5 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong. During the Relevant Periods, the Company is an investment holding company. Its subsidiaries are principally engaged in (i) manufacture and sale of Polyethylene (“PE”)/Fibre Glass Reinforced Plastic (“FRP”) pipes and (ii) mining businesses that operates primarily in the markets of the independent sovereign state of Mongolia (“Mongolia”) and the People’s Republic of China (the “PRC”). The mining businesses in Mongolia and the PRC are operated through the Group’s subsidiary and available-for-sale investments respectively.



As at the date of this report, the Company had direct and indirect interests in the subsidiaries as set out in note 19 of Section (III) below.

The consolidated financial statements of the Group for the years ended 31 December 2007 and 2008 were audited by Shu Lun Pan Horwath Hong Kong CPA Limited which merged its business with BDO Limited on 1 May 2009. Accordingly, the consolidated financial statements of the Group for the year ended 31 December 2009 were audited by BDO Limited. The audit for the consolidated financial statements of the Group for each of the years ended 31 December 2007, 2008 and 2009 were conducted in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The Financial Information has been prepared based on the audited consolidated financial statements of the Group for the Relevant Periods which are prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA without making any adjustments for the purpose of inclusion in the Circular. For the purpose of this report, we have examined the Financial Information for the Relevant Periods in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

The directors of the Company (the “Directors”) are responsible for the preparation of the Financial Information. The Directors are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report, to form an independent opinion, based on our examination on the Financial Information for the Relevant Periods, and to report an opinion to you.

Basis for disclaimer of opinion

1. Fundamental uncertainty relating to the going concern basis of the Group

As set out in Note 3(b) of Section (III) below, the Group incurred a loss attributable to the owners of the Company of HK\$864,145,000 for the year ended 31 December 2009. As at that date, the Group had consolidated net current liabilities of HK\$54,067,000. The validity of the going concern assumption on which the consolidated Financial Information are prepared is dependent on the successful outcome of the proposed settlement of the 4.5% convertible bonds which fall due on 31 October 2010 with the Joint and Several Liquidators of Lehman Brothers Commercial Corporation Asia Limited (In liquidation) (the “Lehman Liquidators”), the holder of the 4.5% convertible bonds, and favourable outcomes of the steps being taken by the directors to generate funds internally sufficient to meet the Group’s future working capital and financial requirements.

The material uncertainty with regard to whether or not a settlement can be reached with the Lehman Liquidators is so fundamental that it casts significant doubt about the ability of the Group to continue as a going concern.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised other than the amounts at which they are currently stated in the consolidated Financial Information. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities respectively.



2. Carrying amounts of mining rights and interests in associates

Included in the consolidated statements of financial position as at 31 December 2008 and 2009 were mining rights with carrying amounts of HK\$214,057,000 and HK\$206,963,000 respectively. Included in the consolidated statements of financial position as at 31 December 2007 and 2008 were interests in associates with carrying amounts of HK\$2,133,361,000 and HK\$1,112,008,000 respectively.

As set out in Note 17 of Section (III) below, the carrying amounts of the mining rights as at 31 December 2008 were determined by the directors of the Company with reference to the value-in-use calculation that are primarily based on the commodity prices relevant to the Group and the carrying amounts of the mining rights as at 31 December 2009 were determined by the directors of the Company with reference to the external professional valuation which has been prepared using the discounted cash flow method and based on the assumption that the Group is a going concern such that the mining operations will continue and generate cash flows without any threats of closure or liquidation in the foreseeable future.

As set out in Note 18 of Section (III) below, the carrying amounts of the interests in associates included an adjustment of the fair value of mining rights as at the date of completion of the acquisition of associates in 2007, the carrying amounts of mining rights as at 31 December 2007 were determined by the directors of the Company with reference to the external professional valuation which has been prepared using the discounted cash flow method. As at 31 December 2008, the carrying amounts of the mining rights and intangible assets of the associates were determined by the directors of the Company with reference to the value-in-use calculation that are primarily based on the commodity prices relevant to the Group. The valuations of mining rights and intangible assets of associates in 2007 and 2008 were based on the assumption that the Group is a going concern such that the mining operations will continue and generate cash flows without any threats of closure or liquidation in the foreseeable future.

However, because of the fundamental uncertainty relating to the going concern of the Group as described in the basis for disclaimer of opinion paragraph (1) above, we were unable to obtain sufficient evidence to satisfy ourselves as to whether the valuation methodology and the assumption adopted by the directors of the Company in their valuations of the mining rights and interests in associates were appropriate. There were no other alternative audit procedures that we could carry out to satisfy ourselves as to whether the carrying amounts of the mining rights and interests in associates are fairly stated in the consolidated statements of financial position. Any adjustments found to be necessary may have an effect on the Group's net assets as at 31 December 2007, 2008 and 2009 and the Group's results for the Relevant Periods.

Disclaimer of opinion: disclaimer on view given by Financial Information

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the Financial Information as to whether it gives a true and fair view of the state of affairs of the Group as at 31 December 2007, 2008 and 2009, and of the consolidated results and cash flows of the Group for the Relevant Periods.



(II) FINANCIAL INFORMATION

Consolidated Income Statements

The following is the consolidated results of the Group for the Relevant Periods prepared on the basis set out in Section (III) below:

	Notes	Year ended 31 December		
		2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Turnover	5	31,826	72,770	38,712
Other income and gain	7	1,601	7,524	539
Cost of inventories sold		(31,261)	(70,676)	(33,110)
Staff costs, including directors' remuneration	13	(6,393)	(49,435)	(8,280)
Depreciation		(1,555)	(1,770)	(2,451)
Amortisation of mining rights	17	–	(12,552)	(8,090)
Amortisation of land use rights	16	(653)	(694)	(698)
Other operating expenses		(9,685)	(13,793)	(14,241)
Impairment loss on mining rights	17	–	(230,814)	–
Impairment loss on available-for-sale investments	20	–	–	(805,580)
Impairment loss on property, plant and equipment	15	(3,097)	–	–
Impairment loss on prepayments	21	(273)	–	–
Share of profits/(losses) of associates, net	18	1,139,370	(1,155,573)	(10,282)
Excess of the Group's share of the fair value of the identifiable net assets of the subsidiaries		–	118,110	–
Finance costs	8	(4,494)	(25,330)	(24,908)
Profit/(loss) before income tax	9	1,115,386	(1,362,233)	(868,389)
Income tax credit	10(a)	272	63,236	2,184
Profit/(loss) for the year		<u>1,115,658</u>	<u>(1,298,997)</u>	<u>(866,205)</u>
Profit/(loss) attributable to:				
Owners of the Company	11	1,115,983	(1,243,920)	(864,145)
Minority interests		(325)	(55,077)	(2,060)
		<u>1,115,658</u>	<u>(1,298,997)</u>	<u>(866,205)</u>
PROFIT/(LOSS) PER SHARE				
ATTRIBUTABLE TO OWNERS OF THE COMPANY	12			
Basis (HK\$)		<u>1.318</u>	<u>(1.289)</u>	<u>(0.865)</u>
Diluted (HK\$)		<u>0.805</u>	<u>(1.289)</u>	<u>(0.865)</u>



Consolidated Statements of Comprehensive Income

The following is the consolidated results of the Group for the Relevant Periods prepared on the basis set out in Section (III) below:

	Year ended 31 December		
	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) for the year	<u>1,115,658</u>	<u>(1,298,997)</u>	<u>(866,205)</u>
Other comprehensive income:			
Exchange differences on translation of associates	–	134,220	18,106
Exchange differences of translation	<u>11,430</u>	<u>23,573</u>	<u>(2,022)</u>
Other comprehensive income for the year, net of tax	<u>11,430</u>	<u>157,793</u>	<u>16,084</u>
Total comprehensive income for the year	<u>1,127,088</u>	<u>(1,141,204)</u>	<u>(850,121)</u>
Total comprehensive income for the year attributable to:			
Owners of the Company	<u>1,127,017</u>	<u>(1,087,964)</u>	<u>(845,037)</u>
Minority interests	<u>71</u>	<u>(53,240)</u>	<u>(5,084)</u>
	<u>1,127,088</u>	<u>(1,141,204)</u>	<u>(850,121)</u>



Consolidated Statements of Financial Position

The following is the consolidated statements of financial position of the Group as at the end of each of the Relevant Periods prepared on the basis set out in Section (III) below:

	Notes	As at 31 December		
		2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	15	28,226	62,808	83,956
Land use rights	16	30,272	31,477	30,926
Mining rights	17	–	214,057	206,963
Interests in associates	18	2,133,361	1,112,008	–
Available-for-sale investments	20	–	–	314,800
Deposits paid	21	15,961	91,462	57,231
		<u>2,207,820</u>	<u>1,511,812</u>	<u>693,876</u>
Current assets				
Inventories	22	438	9,092	50,719
Trade receivables	23	–	45,081	10,788
Other receivables, deposits and prepayments	21	13,634	12,841	54,550
Tax recoverable		42	45	45
Cash and cash equivalents	24	294,063	99,361	76,071
		<u>308,177</u>	<u>166,420</u>	<u>192,173</u>
Current liabilities				
Trade payables	25	68	3,178	2,512
Other payables and accruals		2,038	14,596	2,457
Convertible bonds	26	–	6,228	241,271
		<u>2,106</u>	<u>24,002</u>	<u>246,240</u>
Net current assets/(liabilities)		<u>306,071</u>	<u>142,418</u>	<u>(54,067)</u>
Total assets less current liabilities		<u>2,513,891</u>	<u>1,654,230</u>	<u>639,809</u>
Non-current liabilities				
Convertible bonds	26	226,107	232,552	–
Deferred tax liabilities	27	152,211	182,818	180,634
Convertible preferred shares	28	50,992	55,756	50,992
		<u>429,310</u>	<u>471,126</u>	<u>231,626</u>
Net assets		<u>2,084,581</u>	<u>1,183,104</u>	<u>408,183</u>
EQUITY				
Share capital	29	9,344	10,247	15,370
Reserves		<u>2,071,534</u>	<u>1,134,516</u>	<u>359,556</u>
Equity attributable to owners of the Company		2,080,878	1,144,763	374,926
Minority interests		<u>3,703</u>	<u>38,341</u>	<u>33,257</u>
Total equity		<u>2,084,581</u>	<u>1,183,104</u>	<u>408,183</u>



Consolidated Statement of Changes in Equity

The following is the consolidated statements of changes in equity of the Group for the Relevant Periods prepared on the basis set out in Section (III) below:

	Equity attributable to owners of the Company										
	Share capital	Share premium account	Convertible bonds reserve	Employee compensation reserve	Statutory surplus reserve	Convertible preferred shares reserve	Warrants reserve	Exchange translation reserve	(Accumulated losses)/ retained profits	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Note a)	(Note 26)	(Note 30)	(Note b)	(Note 28)	(Note c)	(Note d)			
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
Total comprehensive income 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 29)	220	10,639	-	(1,531)	-	-	-	-	-	-	9,328
Issue of shares on exercise of warrants (Note 29)	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	<u>9,344</u>	<u>188,251</u>	<u>18,985</u>	<u>-</u>	<u>5,110</u>	<u>753,639</u>	<u>7,619</u>	<u>12,954</u>	<u>1,084,976</u>	<u>3,703</u>	<u>2,084,581</u>
Balance at 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
Total comprehensive income for the year	-	-	-	-	-	-	-	155,956	(1,243,920)	(53,240)	(1,141,204)
Acquisition of equity interest of subsidiaries	-	-	-	-	-	-	-	-	-	87,878	87,878
Issue of share	903	107,398	-	-	-	-	-	-	-	-	108,301
Recognition of equity-settled share-based compensation (Note 30)	-	-	-	43,548	-	-	-	-	-	-	43,548
Release of reserve upon lapse of share options (Note 30)	-	-	-	(5,517)	-	-	-	-	5,517	-	-
Balance at 31 December 2008	<u>10,247</u>	<u>295,649</u>	<u>18,985</u>	<u>38,031</u>	<u>5,110</u>	<u>753,639</u>	<u>7,619</u>	<u>168,910</u>	<u>(153,427)</u>	<u>38,341</u>	<u>1,183,104</u>

Consolidated Statement of Changes in Equity (Continued)

	Equity attributable to owners of the Company										
	Share capital	Share premium account	Convertible bonds reserve	Employee compensation reserve	Statutory surplus reserve	Convertible preferred shares reserve	Warrants reserve	Exchange translation reserve	(Accumulated losses)/ retained profits	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Note a)	(Note 26)	(Note 30)	(Note b)	(Note 28)	(Note c)	(Note d)			
Balance at 1 January 2009	10,247	295,649	18,985	38,031	5,110	753,639	7,619	168,910	(153,427)	38,341	1,183,104
Total comprehensive income for the year	-	-	-	-	-	-	-	19,108	(864,145)	(5,084)	(850,121)
Issue of rights shares, less issue expenses (Note 29)	5,123	70,077	-	-	-	-	-	-	-	-	75,200
Redemption of convertible bonds	-	-	(1,063)	-	-	-	-	-	1,063	-	-
Release upon lapse of warrants	-	-	-	-	-	-	(7,619)	-	7,619	-	-
Balance at 31 December 2009	<u>15,370</u>	<u>365,726</u>	<u>17,922</u>	<u>38,031</u>	<u>5,110</u>	<u>753,639</u>	<u>-</u>	<u>188,018</u>	<u>(1,008,890)</u>	<u>33,257</u>	<u>408,183</u>

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 loss 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 entitles 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 Li Haihuan 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 entitles 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.

For the year ended 31 December 2007, 34,654,400 warrants had been exercised. No warrants had been exercised in 2008 and 2009 and all warrants lapsed upon expiry in 2009.

- (d) Exchange translation reserve comprises all foreign exchange differences arising from the translation of the Financial Information of foreign operations. This reserve is dealt with in accordance with the accounting policy in Note 3(r).



Consolidated Statements of Cash Flows

The following is the consolidated statements of cash flows of the Group for the Relevant Periods prepared on the basis set out in Section (III) below:

	Notes	Year ended 31 December		
		2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Operating activities				
Profit/(loss) before income tax		1,115,386	(1,362,233)	(868,389)
Adjustments for:				
Depreciation	9	2,707	2,991	4,618
Amortisation of land use rights		653	694	698
Impairment loss of mining rights		–	230,814	–
Amortisation of mining rights		–	12,552	8,090
Employee share-based compensation	13	–	43,548	–
Bank interest income	7	(1,529)	(2,267)	(125)
Gain on disposal of property, plant and equipment		(57)	–	–
Interest on convertible bonds	8	3,700	20,184	19,936
Imputed interest on convertible preferred shares	8	794	4,764	4,764
Impairment loss of property, plant and equipment		3,097	–	–
Write-off of property, plant and equipment	9	–	3	108
Impairment loss on prepayments		273	–	–
Impairment loss on available-for-sale investments		–	–	805,580
Excess of the Group's share of the fair value of the identifiable net assets of the subsidiaries acquired over the cost of acquisition		–	(118,110)	–
Gain on deregistration of a subsidiary	7	–	–	(320)
Share of (profits)/losses of associates, net		(1,139,370)	1,155,573	10,282
Operating loss before working capital changes		(14,346)	(11,487)	(14,758)
Decrease/(increase) in inventories		2,101	(8,654)	(41,627)
Decrease/(increase) in trade receivables		1,394	(45,081)	34,293
(Increase)/decrease in other receivables, deposits and prepayments		(7,811)	814	(41,705)
(Decrease)/increase in trade payables		(399)	3,110	(666)
(Decrease)/increase in other payables and accruals		(57)	12,295	(12,139)
Effect of foreign exchange differences		2,059	8,804	(33)
Cash used in operations		(17,059)	(40,199)	(76,635)
Interest income received		1,529	2,267	125
Income taxes paid		–	(301)	–
Net cash used in operating activities		(15,530)	(38,233)	(76,510)



Consolidated Statements of Cash Flows (Continued)

	Notes	Year ended 31 December		
		2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Investing activities				
Deposits paid	21	(15,961)	(91,462)	34,231
Purchase of property, plant and equipment	15	(2,312)	(35,808)	(25,583)
Acquisition of subsidiaries		–	(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	–	–
Deregistration of a subsidiary		–	–	(3,941)
Net cash (used in)/from investing activities		<u>(40,690)</u>	<u>(154,440)</u>	<u>4,707</u>
Financing activities				
Issue of convertible bonds		246,250	–	–
Payment of issue costs for convertible bonds		(7,787)	–	–
Convertible bond interest paid		(62)	(7,511)	(11,050)
Proceeds from exercise of share options		9,328	–	–
Proceeds from exercise of warrants		10,011	–	–
Proceeds from issue of right shares, net of share issue expenses		–	–	75,200
Redemption of convertible bonds		–	–	(6,395)
Convertible preferred shares interest paid		–	–	(9,528)
Net cash from/(used in) financing activities		<u>257,740</u>	<u>(7,511)</u>	<u>48,227</u>
Net increase/(decrease) in cash and cash equivalents		<u>201,520</u>	<u>(200,184)</u>	<u>(23,576)</u>
Cash and cash equivalents at beginning of year		88,204	294,063	99,361
Effect of foreign exchange rate changes		<u>4,339</u>	<u>5,482</u>	<u>286</u>
Cash and cash equivalents at end of year		<u><u>294,063</u></u>	<u><u>99,361</u></u>	<u><u>76,071</u></u>
Analysis of the balances of cash and cash equivalents				
Cash at bank and in hand		<u><u>294,063</u></u>	<u><u>99,361</u></u>	<u><u>76,071</u></u>

(III) NOTES TO THE FINANCIAL INFORMATION

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 and (ii) mining businesses that operates primarily in the markets of the independent sovereign state of Mongolia ("Mongolia") and the PRC. The mining businesses in Mongolia and the PRC are operated through the Group's subsidiary and available-for-sale investments respectively. The activities of the subsidiaries are set out in Note 19.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has adopted all the new/revised HKFRSs issued by HKICPA, which are effective for the Group's financial year beginning on 1 January 2009, consistently throughout the Relevant Periods, where appropriate.

The following new or revised HKFRSs, potentially relevant to the Group's operations, have been issued but are not yet effective and have not been early adopted by the Group:

		Effective date
HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs	(i)
HKFRSs (Amendments)	Improvements to HKFRSs 2009	(ii)
Amendments to HKAS 39	Eligible Hedged Items	(i)
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions	(iii)
Amendment to HK(IFRIC) – Interpretation 14	Prepayments of a Minimum Funding Requirements	(v)
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	(i)
HKFRS 3 (Revised)	Business Combinations	(i)
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners	(i)
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments	(iv)
HKAS 24 (Revised)	Related Party Disclosures	(v)
HKFRS 9	Financial Instruments	(vi)

Effective date:

- (i) Annual periods beginning on or after 1 July 2009
- (ii) Annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
- (iii) Annual periods beginning on or after 1 January 2010
- (iv) Annual periods beginning on or after 1 July 2010
- (v) Annual periods beginning on or after 1 January 2011
- (vi) Annual periods beginning on or after 1 January 2013

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. Changes in the Group's ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions. The Group is in the process of making an assessment of the potential impact of other new/revised HKFRSs and the directors so far concluded that the application of the other new/revised HKFRSs will have no material impact on the results and the financial position of the Group.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These Financial Information have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance.

These Financial Information include applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

(b) Basis of preparation of Financial Information

These Financial Information have been prepared under the historical cost convention, except for available-for-sale investments, which have been measured at fair value.

These Financial Information have been prepared on a going concern basis notwithstanding that the Group recorded net current liabilities of HK\$54,067,000 at 31 December 2009 and had outstanding 4.5% convertible bonds, comprising the liability component of HK\$241,271,000 and equity component of HK\$17,922,000 as at 31 December 2009. The convertible bonds which have a nominal value of HK\$246,250,000 are due for redemption on 31 October 2010. The Group incurred a loss attributable to owners of the Company of HK\$864,145,000 for 2009.

During and after the reporting period, the directors have been in discussion with the Joint and Several Liquidators of Lehman Brothers Commercial Corporation Asia Limited (In liquidation) ("LBCCA"), the holders of the above 4.5% convertible bonds, for the settlement of the bonds which fall due on 31 October 2010 (the "Proposed Settlement"). As at the end of reporting period and at the date of approval of these Financial Information, the Group has yet to conclude the Proposed Settlement with LBCCA. The Group's liquidity and its ability to meet its operating costs and financial obligations are dependent on LBCCA continuing to exercise forbearance pending the outcome of the Proposed Settlement.

In the opinion of the directors, if the Proposed Settlement accomplishes the expected satisfactory results, the Group will have the ability to generate funds internally sufficient to meet its future working capital requirements and financial obligations. Accordingly, the directors consider that it is appropriate to prepare these Financial Information on a going concern basis.

The applicability of the going concern basis depends on the outcome of the Proposed Settlement and the Group's ability to generate funds internally sufficient to meet its future working capital requirements and financial obligations. The Financial Information do not include any adjustments that would result if the outcome of the Proposed Settlement would not proceed. If the above measurements would not proceed, or if the going concern basis was not to be appropriate, adjustments would have to be made to the Financial Information to reduce the value of the assets of the Group to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated Financial Information, are disclosed in Note 4.

(c) Basis of consolidation

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

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

All 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. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

(d) 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 statement of financial position at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(e) 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 Information using the equity method of accounting. Under the equity method, interests in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less impairment in the value of individual investments. 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.

(f) Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the statement of comprehensive income.

(g) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy in Note 3(u). In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 least at each financial year end, 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%

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. 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.

(h) Land use rights

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

(i) 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.

(j) Impairment of assets excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or impairment loss previously recognised no longer exists or may have decreased:

- Property, plant and equipment;
- Land use rights;
- Mining rights;
- Interests in subsidiaries and amounts due from subsidiaries; and
- Interests in associates

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.

(k) 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.

(l) 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 that are directly attributable to the acquisition of the financial assets. The Group's financial assets are subsequently accounted for as follows, depending on their classification:

(i) Loans and receivables

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.

(ii) *Available-for-sale investments*

These assets are non-derivative financial assets that are designated as available for sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised directly in equity.

For available-for-sale equity investments that do not have quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

(iii) *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. 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 equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, 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.

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.

- For available-for-sale investments, where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

Any impairment losses on available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

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.

(iv) *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.

(v) *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.

(m) **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.

(iii) *Compound instruments*

Convertible bonds and convertible preferred shares that contain liability and equity components.

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.

In subsequent periods, the equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds – equity component until the embedded option is exercised in which case the balance stated in convertible bonds – equity component will be transferred to share premium. Where the option remains unexercised at the expiry dates, the balance stated in convertible bonds – equity component will be released to the retained profits. No gain or loss is recognised upon conversion or expiration of the option.

(iv) 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.

(v) Derecognition of financial liabilities

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

(vi) Effective interest method

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.

(n) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, 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.

(o) 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.

(p) 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 end of each reporting period, 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 statement of comprehensive income 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 the end of each reporting period to reflect changes in conditions.

(q) 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 statement of comprehensive income 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 end of each reporting period.

(ii) Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the 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 the end of each reporting period 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.

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 end of each reporting period. 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.

(r) **Foreign currencies**

Functional and presentation currency

Items included in the Financial Information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated Financial Information are presented in Hong Kong Dollars ("HK\$"), which is the functional currency of the Company, and the presentation currency for the consolidated Financial Information.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchanges rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Translated differences on non-monetary items are reported as part of the fair value gain or loss. Translation differences on non-monetary items are included in the fair value reserve in equity.

On consolidation, the statement of financial positions of subsidiaries denominated in foreign currencies are translated into HK\$ at the applicable rates of exchange ruling at the end of reporting period while income and expenses items are translated at an average rate. The resulting translation differences are included in the exchange translation reserve.

(s) **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 statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

(t) 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 the end of each reporting period, 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 Information 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 service.

(u) 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.

(v) 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.

(w) 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 collectability 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.

(x) 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 Information. 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:

(a) Going concern

Management makes an assessment of the Group's ability to continue as a going concern when preparing the Financial Information. The Group is dependent upon the successful outcome of the Proposed Settlement as set forth in Note 3(b) in order to meet the Group's future working capital and financing requirements.

In assessing whether or not the going concern assumption is appropriate, management takes into account all available information about the future, which is at least but is not limited to, twelve months from the approval date of the Financial Information.

If the Group were unable to continue as a going concern, adjustments relating to the recoverability and classification of recorded assets and liabilities may need to be incorporated in the Financial Information.

(b) 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 were 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, respectively.

(c) Fair value and impairment of available-for-sale investments

The Group classifies certain investments as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in profit or loss. The fair value of the Group's available-for-sale investments is determined with reference to a business valuation report of the available-for-sale investments issued by an independent firm of professionally qualified valuers. Further details are set out in Note 20.

(d) 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 end of each reporting period.

(e) 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 end of each reporting period to ensure inventories are shown at the lower of cost and net realisable value.

(f) 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.

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 profit or loss 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.

(g) 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.

(h) 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:

	Year ended 31 December		
	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Sale of PE/FRP pipes	7,113	19,772	29,780
Sale of composite materials	24,713	52,998	8,932
	<u>31,826</u>	<u>72,770</u>	<u>38,712</u>

6. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group has three reportable segments. The segments are managed separately as each business offers different products and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Manufacture and sale of PE/FRP pipes
- Sale of raw materials and composite materials (collectively as the "composite materials")
- Mining operations

Segment assets exclude interest in associates, cash and cash equivalents and available-for-sale investments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude convertible bonds, deferred tax liabilities and convertible preferred shares and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

There was no inter-segment sale or transfer during the Relevant Periods. Central revenue and expenses are not allocated to the operating segments as they are not included the measure of the segments' loss that is used by the chief operating decision-makers for assessment of segment performance.

(a) **Business segments**

	Manufacture and sale of PE/FRP pipes			Sale of composite materials			Mining operations			Consolidated		
	2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	7,113	19,772	29,780	24,713	52,998	8,932	-	-	-	31,826	72,770	38,712
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	-
Reportable segment revenue	<u>7,113</u>	<u>19,772</u>	<u>29,780</u>	<u>24,713</u>	<u>52,998</u>	<u>8,932</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,826</u>	<u>72,770</u>	<u>38,712</u>
Reportable segment loss	<u>(2,371)</u>	<u>(1,658)</u>	<u>(4,705)</u>	<u>(4,549)</u>	<u>(362)</u>	<u>(2,667)</u>	<u>-</u>	<u>(243,485)</u>	<u>(8,275)</u>	<u>(6,920)</u>	<u>(245,505)</u>	<u>(15,647)</u>
Reportable segment assets	<u>69,038</u>	<u>151,581</u>	<u>263,012</u>	<u>-</u>	<u>25,638</u>	<u>21,945</u>	<u>-</u>	<u>214,057</u>	<u>207,042</u>	<u>69,038</u>	<u>391,276</u>	<u>491,999</u>
Reportable segment liabilities	<u>(1,015)</u>	<u>(16,705)</u>	<u>(3,647)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(215)</u>	<u>(179)</u>	<u>(1,015)</u>	<u>(16,920)</u>	<u>(3,826)</u>
Other segment information:												
Share of (profits)/losses of associates, net	-	-	-	-	-	-	1,139,370	(1,155,573)	(10,282)	1,139,370	(1,155,573)	(10,282)
Impairment loss on available-for-sale investments	-	-	-	-	-	-	-	-	(805,580)	-	-	(805,580)
Interest revenue										1,529	2,267	125
Finance costs										(4,494)	(25,330)	(24,908)
Depreciation and impairment losses	5,202	2,902	3,861	-	-	-	-	243,366	4	5,202	246,268	3,865
Unallocated depreciation										602	89	753
Total depreciation and impairment losses										<u>5,804</u>	<u>246,357</u>	<u>4,618</u>
Amortisation of land use rights	653	694	698	-	-	-	-	-	-	<u>653</u>	<u>694</u>	<u>698</u>
Amortisation of mining rights	-	-	-	-	-	-	-	12,552	8,090	<u>-</u>	<u>12,552</u>	<u>8,090</u>

	Manufacture and sale of PE/FRP pipes			Sale of composite materials			Mining operations			Consolidated		
	2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Income tax credit	-	-	-	-	-	-	-	(61,120)	(2,022)	-	(61,120)	(2,022)
Unallocated income tax credit										(272)	(2,116)	(162)
Total income tax credit										<u>(272)</u>	<u>(63,236)</u>	<u>(2,184)</u>
Additions to non-current assets	625	35,507	25,472	-	-	-	-	451,888	-	625	487,395	25,472
Unallocated additions to non-current assets										1,687	219	111
Total additions to non-current assets										<u>2,312</u>	<u>487,614</u>	<u>25,583</u>
Interests in associates	-	-	-	-	-	-	2,133,361	1,112,008	-	2,133,361	1,112,008	-
Available-for-sale investments	-	-	-	-	-	-	-	-	314,800	-	-	314,800

(b) Reconciliation of reportable segment, profit or loss, assets and liabilities

	Year ended 31 December		
	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000
Loss before income tax expenses			
Reportable segment loss	(6,920)	(245,505)	(15,647)
Other income and gains	1,601	7,524	539
Share of profits/(losses) of associates, net	1,139,370	(1,155,573)	(10,282)
Excess of the Group's share of the fair value of the identifiable net assets of the subsidiaries acquired over the cost of acquisition	-	118,110	-
Impairment loss on available-for-sale investments	-	-	(805,580)
Corporate and other unallocated expenses	(14,171)	(61,459)	(12,511)
Finance costs	(4,494)	(25,330)	(24,908)
Consolidated gain/(loss) before income tax	<u>1,115,386</u>	<u>(1,362,233)</u>	<u>(868,389)</u>

	31 December		
	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Assets			
Reportable segment assets	69,038	391,276	491,999
Interests in associates	2,133,361	1,112,008	–
Available-for-sale investments	–	–	314,800
Cash and cash equivalents	294,063	99,361	76,071
Unallocated corporate assets	19,493	75,542	3,134
Tax recoverable	42	45	45
Consolidated total assets	2,515,997	1,678,232	886,049
Liabilities			
Reportable segment liabilities	(1,015)	(16,920)	(3,826)
Convertible bonds	(226,107)	(238,780)	(241,271)
Deferred tax liabilities	(152,211)	(182,818)	(180,634)
Convertible preferred shares	(50,992)	(55,756)	(50,992)
Unallocated corporate liabilities	(1,091)	(854)	(1,143)
Consolidated total liabilities	(431,416)	(495,128)	(477,866)

(c) **Geographic information**

During the reporting period, the Group's operations and non-current assets other than financial instruments (specified non-current assets) are located in the PRC and the Mongolia. The specified non-current assets information below is based on the location of assets.

Segment information of the Group by geographical locations by customer is presented as below:

	The PRC			Mongolia			Consolidated		
	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Revenue from external customers	31,826	72,770	38,712	–	–	–	31,826	72,770	38,712
Specific non-current assets	2,204,957	1,229,370	484,913	–	214,057	206,963	2,204,957	1,443,427	691,876
Unallocated non-current assets							2,863	68,385	2,000
Total non-current assets							2,207,820	1,511,812	693,876

(d) **Information about major customers**

The Group's customer base is not diversified and there were one customer in 2007 and two customers in 2008 and 2009 with whom transactions have exceeded 10% of the Group's revenues. For the year ended 2007, revenue from sale of composite materials to a customer was approximately HK\$24,131,000. Revenues from sale of composite materials to two customers were approximately HK\$20,034,000 and HK\$7,089,000 and HK\$32,963,000 and HK\$1,840,000 for the years ended 31 December 2008 and 2009, respectively.

For the year ended 31 December 2007, revenue from manufacture and sale of PE/FRP pipes to one customer was approximately HK\$6,451,000. Revenues from manufacture and sale of PE/FRP pipes to two customers were approximately HK\$5,440,000 and HK\$3,912,000 and HK\$13,874,000 and HK\$5,059,000 for the years ended 31 December 2008 and 2009, respectively.

7. OTHER INCOME AND GAIN

	Year ended 31 December		
	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000
Bank interest income	1,529	2,267	125
Compensation from a supplier *	–	5,253	–
Gain on deregistration of a subsidiary (Note 31)	–	–	320
Gain on disposal of property, plant and equipment	57	–	–
Sundry income	15	4	94
	<u>1,601</u>	<u>7,524</u>	<u>539</u>

* The amount in 2008 represented compensation received from a supplier of equipment for non-delivery of the equipment ordered.

8. FINANCE COSTS

	Year ended 31 December		
	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000
Interest expenses on convertible bonds maturing within five years	3,700	20,184	19,936
Imputed interest on convertible preferred shares (Note 28)	794	4,764	4,764
Others	–	382	208
	<u>4,494</u>	<u>25,330</u>	<u>24,908</u>

9. PROFIT/(LOSS) BEFORE INCOME TAX

	Year ended 31 December		
	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) before income tax is arrived at after charging:			
Auditors' remuneration	700	720	680
Minimum lease payments under operating lease charges in respect of land and buildings	743	2,530	2,380
Net foreign exchange losses	1	868	–
Depreciation (Note 15)	2,707	2,991	4,618
Write-off of property, plant and equipment	–	3	108
Gain on disposal of property, plant and equipment	<u>(57)</u>	<u>–</u>	<u>–</u>

Note: Depreciation charge of HK\$1,152,000, HK\$1,221,000 and HK\$2,167,000 for the years ended 31 December 2007, 2008 and 2009 respectively, was included in cost of inventories sold on the face of the consolidated income statements.

10. INCOME TAX

- (a) Taxation in the consolidated statements of comprehensive income represents:

	Year ended 31 December		
	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000
Group:			
Current – PRC tax	–	301	–
Deferred taxation (<i>Note 27</i>)			
– attributable to the origination and reversal of temporary differences, net	(272)	(63,537)	(2,184)
Total tax credit for the year	(272)	(63,236)	(2,184)

No provision has been made for Hong Kong profits tax as the Group has no assessable profit arising from Hong Kong during the Relevant Periods. 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, Yichang Fulianjiang Joint Composite Limited, 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 Relevant Periods.

- (b) The taxation credit for each of the Relevant Periods can be reconciled to accounting profit/(loss), at applicable tax rates:

	Year ended 31 December		
	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) before income tax	1,115,386	(1,362,233)	(868,389)
Taxation credit calculated at the statutory PRC tax of 25% (2008: 25%; 2007: 33%)	368,077	(340,558)	(217,097)
Effect of different tax rates of subsidiaries operating in other jurisdictions	6,278	5,335	(427)
Tax effect of expenses not deductible for taxation purposes	1,798	284,138	212,660
Tax effect of non-taxable items	(378,267)	(22,078)	(15)
Tax effect on unused tax losses not recognised	1,842	9,927	2,695
Income tax credit for the year	(272)	(63,236)	(2,184)

In addition to the income tax recognised in profit or loss in 2008, deferred tax relating to the issue of convertible bonds and convertible preferred shares had been charged directly to equity.

11. PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY AND DIVIDEND

The consolidated profit/(loss) attributable to owners of the Company for the year ended 31 December 2007, 2008 and 2009 were HK\$44,182,000, HK\$112,279,000 and HK\$29,208,000, respectively which had been dealt with in the financial statements of the Company.

The board of directors do not recommend the payment of any dividend for the Relevant Periods.

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2008 and 2009 in respect of a dilution as the impact of the convertible bonds, convertible preferred shares, share options and warrants outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

The calculation of diluted earnings/(loss) per share is based on the earnings/(loss) for the year attributable to owners 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 earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the full redemption or conversion of all dilutive potential ordinary shares into ordinary shares.

The basic and diluted earnings/(loss) per share are calculated as follows:

	Year ended 31 December		
	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) for the purpose of basic earnings/(loss) per share	1,115,983	(1,243,920)	(864,145)
<i>Effect of dilutive potential ordinary shares:</i>			
Interest on convertible bonds	3,700	–	–
Interest on convertible preferred shares	794	–	–
Income tax effect	(272)	–	–
Profit/(loss) for the purpose of diluted earnings/(loss) per share	<u>1,120,205</u>	<u>(1,243,920)</u>	<u>(864,145)</u>
	Number of shares		
	Year ended 31 December		
	2007	2008	2009
	'000	'000	'000
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	846,414	964,907	999,403
<i>Effect of dilutive potential ordinary shares:</i>			
– Warrants	16,750	–	–
– Convertible bonds	188,862	–	–
– Convertible preferred shares	339,070	–	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings/(loss) per share	<u>1,391,096</u>	<u>964,907</u>	<u>999,403</u>

As the convertible bonds, convertible preferred shares, share options and warrants, where applicable, outstanding during the years ended 31 December 2008 and 2009 had an anti-dilutive effect on the basic loss per share, the conversion of the above potential dilutive shares was not assumed in the calculation of the diluted loss per share in both reporting periods. Accordingly, the basic and diluted loss per share for 2008 and 2009 are the same.

13. STAFF COSTS, INCLUDING DIRECTORS' REMUNERATION

	Year ended 31 December		
	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000
Wages and salaries	6,346	5,824	7,767
Share options granted to directors and employees (Note 30)	–	43,548	–
Pension costs – defined contribution plans	47	63	513
	<u>6,393</u>	<u>49,435</u>	<u>8,280</u>

14. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Executive directors and non-executive directors

	Fees HK\$'000	Salaries, allowances and equity-settled share option benefits HK\$'000	Retirement benefit scheme contributions HK\$'000	Total HK\$'000
2009				
Executive directors:				
Ms. Ma Zheng	–	1,166	11	1,177
Mr. Wong Pui Yiu	–	720	12	732
	<u>–</u>	<u>1,886</u>	<u>23</u>	<u>1,909</u>
Independent non-executive directors:				
Mr. Wan Tze Fan Terence	154	–	–	154
Mr. Chung Chin Keung	154	–	–	154
Mr. Liu Weichang	112	–	–	112
	<u>420</u>	<u>–</u>	<u>–</u>	<u>420</u>
2008				
Executive directors:				
Ms. Ma Zheng	–	2,384	–	2,384
Mr. Chiu Winerthan	–	1,049	6	1,055
Mr. Wong Pui Yiu	–	617	11	628
	<u>–</u>	<u>4,050</u>	<u>17</u>	<u>4,067</u>
Independent non-executive directors:				
Mr. Wan Tze Fan Terence	132	195	–	327
Mr. Chung Chin Keung	121	–	–	121
Mr. Liu Weichang	60	195	–	255
	<u>313</u>	<u>390</u>	<u>–</u>	<u>703</u>

	Fees <i>HK\$'000</i>	Salaries, allowances and equity-settled share option benefits <i>HK\$'000</i>	Retirement benefit scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
2007				
Executive directors:				
Ms. Ma Zheng	1,000	–	–	1,000
Mr. Chiu Winerthan	–	570	12	582
Mr. Yu Hongzhi	1,100	–	–	1,100
	<u>2,100</u>	<u>570</u>	<u>12</u>	<u>2,682</u>
Independent non-executive directors:				
Mr. Wan Tze Fan Terence	150	–	–	150
Mr. Li Weichang	30	–	–	30
Mr. Gao Sheng Yu	30	–	–	30
	<u>210</u>	<u>–</u>	<u>–</u>	<u>210</u>

During the Relevant Periods, no emolument was paid by the Group to any 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 Relevant Periods included three, three and two directors, details of whose remuneration are set out in Note 14(a) above. Details of the remuneration of the remaining two, two and three non-director, highest paid individuals for the year are as follows:

	Year ended 31 December		
	2007 <i>HK\$'000</i>	2008 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Basic salaries, share options and other benefits	888	8,940	1,023
Discretionary bonuses	1,186	31	208
Retirement benefit scheme contributions	23	10	35
	<u>2,097</u>	<u>8,981</u>	<u>1,266</u>

The emoluments fell within the following bands:

	Number of individuals		
	2007	2008	2009
Nil – HK\$1,000,000	1	–	3
HK\$1,000,001 – HK\$1,500,000	1	–	–
HK\$1,500,001 – HK\$2,000,000	–	–	–
HK\$2,000,001 – HK\$2,500,000	–	–	–
HK\$2,500,001 – HK\$3,000,000	–	–	–
HK\$3,000,001 – HK\$3,500,000	–	–	–
HK\$3,500,001 – HK\$4,000,000	–	–	–
HK\$4,000,001 – HK\$4,500,000	–	2	–
	<u>–</u>	<u>2</u>	<u>–</u>

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvements HK\$'000	Computer equipment HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Construction in progress HK\$'000	Motor vehicles HK\$'000	Total 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

	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
Year ended 31 December 2009								
Opening carrying amount	18,899	-	442	6,710	8	33,538	3,211	62,808
Additions	-	-	403	1,211	1	23,757	211	25,583
Reclassifications	24,294	-	-	32,505	-	(56,799)	-	-
Written off	-	-	-	-	-	-	(108)	(108)
Depreciation	(1,710)	-	(154)	(1,820)	(6)	-	(928)	(4,618)
Exchange difference	89	-	1	31	-	157	13	291
Closing carrying amount	<u>41,572</u>	<u>-</u>	<u>692</u>	<u>38,637</u>	<u>3</u>	<u>653</u>	<u>2,399</u>	<u>83,956</u>
At 31 December 2009								
Cost	48,680	376	1,787	44,000	112	496	5,084	100,535
Accumulated depreciation and impairment losses	(6,933)	(376)	(1,073)	(5,236)	(109)	-	(2,640)	(16,367)
Exchange difference	(175)	-	(22)	(127)	-	157	(45)	(212)
Net carrying amount	<u>41,572</u>	<u>-</u>	<u>692</u>	<u>38,637</u>	<u>3</u>	<u>653</u>	<u>2,399</u>	<u>83,956</u>

Impairment

In 2007, 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 2007. There was no impairment in 2008 and 2009.

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 represents prepaid operating lease payments and movements in the carrying amount are analysed as follows:

	As at 31 December		
	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000
Outside Hong Kong, held on medium-term lease	<u>30,925</u>	<u>32,171</u>	<u>31,624</u>
Opening carrying amount	29,102	30,925	32,171
Amortisation	(653)	(694)	(698)
Exchange difference	2,476	1,940	151
Closing carrying amount	<u>30,925</u>	<u>32,171</u>	<u>31,624</u>
Less: Current portion included in other receivables, deposits and prepayments	<u>(653)</u>	<u>(694)</u>	<u>(698)</u>
Non-current portion	<u>30,272</u>	<u>31,477</u>	<u>30,926</u>

The Group's leasehold land is located in the PRC and held under a medium term lease.

17. MINING RIGHTS

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

	As at 31 December		
	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Opening carrying amount	–	–	214,057
Acquisition of subsidiaries	–	451,806	–
Amortisation	–	(12,552)	(8,090)
Impairment loss	–	(230,814)	–
Exchange difference	–	5,617	996
	<u>–</u>	<u>214,057</u>	<u>206,963</u>
Closing carrying amount	<u>–</u>	<u>214,057</u>	<u>206,963</u>
As at 31 December			
Cost	–	451,806	451,806
Accumulated amortisation and impairment loss	–	(243,366)	(251,456)
Exchange difference	–	5,617	6,613
	<u>–</u>	<u>214,057</u>	<u>206,963</u>
Net carrying amount	<u>–</u>	<u>214,057</u>	<u>206,963</u>

At the end of each reporting period, the mining rights are measured at cost less accumulated amortisation and any impairment losses.

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 each of the Relevant Periods is shown on the face of the consolidated statements of comprehensive income.

In 2008, there had been a significant decline in the market value of commodities price. The directors consider such decline indicates that the carrying amount of the mining rights had been impaired and an impairment loss of HK\$230,814,000 had been recognised in the profit or loss for the year ended 31 December 2008 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. A senior management member of the Group has over ten years of comprehensive experience in the field of mining and metal product industries. In valuing the Groups' mining rights, he had, inter-alia duly considered the current market information of the mining industry including the prices of commodities relating to the Group's mining rights.

In 2009, in determining the recoverable amount of the mining rights, the Group made reference to the valuation report of the mining rights issued by Greater China Appraisal Limited, an independent firm of professionally qualified valuers (the "Professional Valuers"). As the recoverable amount of the Group's mining rights of HK\$337,000,000 as determined in the valuations report issued by the Professional Valuers is higher than their carrying amount, no impairment loss in 2009. In the opinion of the directors, due to the uncertainty of commodities prices in the near future, no write-back of impairment should be made.

In arriving at the valuation, the Professional Valuers and the directors assumed that the Group is a going concern such that the mining operations will continue and generate cash flows without any threat of closure or liquidation in the foreseeable future. As set forth in Note 3(b), in the opinion of the directors, if the Proposed Settlement accomplishes the expected results, the Group will have the ability to generate funds internally sufficient to meet its future working capital requirements and financial obligations. Accordingly, the directors consider that it is appropriate to assess the recoverable amount of mining rights by using value-in-use calculation and by reference to the valuation reports in 2008 and 2009 respectively.

The recoverable amount of the mining rights is determined by reference to the value-in-use calculations which are primarily based on the commodity prices relevant to the Group's operations. The percentage (decrease)/increase in prices for the commodities concerned in 2008 and 2009 are as follows:

	2008	2009
	%	%
Silver	(34)	102
Lead	(25)	33
Zinc	(33)	60
Tin	(23)	48

Details of the Group's mining rights as at 31 December 2009 were as follows:

Mine	Location	Expiry date
Mungun-Undur Polymetallic mine	Mungun-Undur, Khentii Province, Mongolia	10 August 2035

18. INTERESTS IN ASSOCIATES

	As at 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	<u>2,133,361</u>	<u>1,112,008</u>	<u>–</u>

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

	As at 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	9,821,567	5,214,872	N/A
Total liabilities	<u>(246,338)</u>	<u>(223,813)</u>	<u>N/A</u>
Net assets	<u>9,575,229</u>	<u>4,991,059</u>	<u>N/A</u>
Group's share of associates' net assets	<u>2,133,361</u>	<u>1,112,008</u>	<u>N/A</u>
	Period/year ended		
Revenue for the period*/year	<u>1,112</u>	<u>1,192</u>	<u>6</u>
Loss for the period*/year	<u>(78,646)</u>	<u>(5,186,593)</u>	<u>(46,150)</u>
Group's share of associates' loss for the period*/year	(17,522)	(1,155,573)	(10,282)
Excess of the Group's share of the fair value of the identifiable net assets of the associates	<u>1,156,892</u>	<u>–</u>	<u>–</u>
Group's share of associates' profits/(loss) for the period*/year	<u>1,139,370</u>	<u>(1,155,573)</u>	<u>(10,282)</u>

* 2007: For the period from 26 October 2007 to 31 December 2007.
2009: For the period from 1 January 2009 to 23 April 2009.

Year ended 31 December 2007

On 26 October 2007, the Group, through Yichang Shoukong Industries Co. Ltd., its wholly-owned subsidiary, acquired from Great Ocean Real Estate Limited ("GORE") (i) 22.28% equity interest in Xin Shougang Zi Yuan Holdings Limited ("Xin Shougang") which owned 65%, 45% and 48% of the equity interest in Yichang Xin Shougang Real Estate Development Limited 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 Yichang Xin Shougang Precious Metal Mining Limited respectively at the date of the acquisition (collectively referred to as the "Xin Shougang Group"); and (ii) a call option to acquire an additional 12.72% equity interest in Xin Shougang (the "Call Option"), which are collectively referred as the Acquisition. Xin Shougang was engaged 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 28) to GORE upon the completion of the Acquisition.

Upon the completion of the Acquisition, Xin Shougang established Chang Yang Mining 長陽新首鋼礦業有限公司 as a wholly-owned subsidiary. The Xin Shougang Group had already commenced business before the Acquisition but not generated any revenue thereof.

The cost of the acquisition was 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 Yichang Xin Shougang Precious Metal Mining Limited was also a 52%-owned subsidiary of the Group prior to the Acquisition, the acquisition of the effective 10.7% equity interest of Yichang Xin Shougang Precious Metal Mining Limited 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 Yichang Xin Shougang Precious Metal Mining Limited. 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 were 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 Yichang Xin Shougang Precious Metal Mining Limited) 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 approximately 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 was estimated by the directors by reference to a valuation report dated 18 March 2008 prepared by the Professional 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 was 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 was an option of the Company to acquire an 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 would be subject to further agreement between the Group and the GORE upon exercise of the Call Option. The fair value of the Call Option was determined by employing the Binomial Option Pricing model.

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 was credited to the share of losses of associates, net for the year ended 31 December 2007.

In arriving at the valuation, the Professional Valuers assumed that the Group is a going concern such that the mining operations will continue and generate cash flows without any threat of closure or liquidation in the foreseeable future. As set forth in Note 3(b), in the opinion of the directors, if the Proposed Settlement accomplishes the expected results, the Group will have the ability to generate funds internally sufficient to meet its future working capital requirements and financial obligations. Accordingly, the directors consider that it is appropriate to assess the recoverable amount of mining rights by reference to the valuation report in 2007.

Year ended 31 December 2008

There had been a significant decline in the market value of commodities price during the year. The directors considered such decline indicated 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 loss of the associates' for the year of HK\$5,187 million.

In arriving at the valuation, the directors assumed that the Group is a going concern such that the mining operations will continue and generate cash flows without any threat of closure or liquidation in the foreseeable future. As set forth in Note 3(b), in the opinion of the directors, if the Proposed Settlement accomplishes the expected results, the Group will have the ability to generate funds internally sufficient to meet its future working capital requirements and financial obligations. Accordingly, the directors consider that it is appropriate to assess the recoverable amount of the mining rights by using the value-in-use calculation in 2008.

Year ended 31 December 2009

On 23 April 2009, the Group's interest in Xin Shougang was reduced from 22.28% to 12.21%. The reduction was mainly due to the injection of additional registered and paid up capital into Xin Shougang by the controlling equity owner of Xin Shougang. As from that date, Xin Shougang ceased to be an associate of the Group, and the Group's resultant 12.21% equity interest in Xin Shougang was reclassified and designated as available-for-sale investments as a result of the reduction in its interest in Xin Shougang (Note 20).

19. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2009 were as follows:

Name of company	Country of incorporation/ establishment and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
e-gameasia.com Ltd	The British Virgin Islands ("BVI")/Hong Kong	10,279,450 ordinary shares of HK\$1 each	100%	Investment holding
Billybala Software (BVI) Limited	BVI/Hong Kong	1 ordinary share of US\$0.01 each	100%	Investment holding
Yichang Fulianjiang Joint Composite Limited (Note (i))	PRC	HK\$122,380,000	100%	Trading of merchandise and production of PE/FRP pipes
Shoukong Group Limited	BVI/Hong Kong	20,000,000 ordinary shares of US\$1 each	100%	Investment holding
Yichang Shoukong Industries Co., Ltd. ("Yichang Shoukong") (Note (i))	PRC	HK\$250,000,000	100%	Investment holding
Billybala Software (Shenzhen) Limited (Note (i))	PRC	HK\$1,000,000	100%	Providing administrative service to group companies
Billybala iGame Limited	Hong Kong	HK\$7 ordinary shares of HK\$1 each	100%	Providing administrative service to group companies
Zhong Ping Resources Holdings Limited ("Zhong Ping")	BVI/Hong Kong	75,000,000 ordinary shares of HK\$1 each	100%	Investment holding
ARIA LLC (Note (iii))	Mongolia	1,330,000 ordinary shares of US\$1 each	70%	Mining resources development

Notes:

- (i) The subsidiary is registered as a wholly-foreign-owned enterprise under the PRC law.
- (ii) This subsidiary was incorporated in Mongolia.

In the opinion of the directors, the above subsidiaries principally affected the results of the Group 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. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted equity investments, at fair value	<u>–</u>	<u>–</u>	<u>314,800</u>

During 2009, impairment loss on the Group's available-for-sale investments recognised in profit or loss amounted to HK\$805,580,000 (Note 38(b)).

The available-for-sale investments consist of investments in unlisted equity securities which were designated as available-for-sale investments from interests in associates at the initial cost of HK\$1,120,380,000 (Note 38(b)) as from 23 April 2009 (Note 18) and have no fixed maturity date or coupon rate.

The fair value of the available-for-sale investments was HK\$314,800,000 as at 31 December 2009 as professionally valued by the Professional Valuers using the adjusted net asset value approach which took into account the estimated fair value of the mining rights and land use rights of the investees. The fall in value of the mining rights of the investees is primarily due to the dilution of the Group's interest in the investees and the lost of their rights over the mining sites with mineral resources other than iron.

The fair value of the Group's available-for-sale investments has been estimated on the assumptions which are not supported by observable market prices or rates. The directors believe that the estimated fair value and the valuation technique adopted are reasonable.

21. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Prepayments	13,666	967	42,059
Other receivables and deposits	<u>16,202</u>	<u>103,609</u>	<u>69,995</u>
	29,868	104,576	112,054
Less: Provision for impairment loss on prepayments	<u>(273)</u>	<u>(273)</u>	<u>(273)</u>
	29,595	104,303	111,781
Less: Current portion (<i>Note (b)</i>)	<u>(13,634)</u>	<u>(12,841)</u>	<u>(54,550)</u>
Non-current portion (<i>Note (a)</i>)	<u>15,961</u>	<u>91,462</u>	<u>57,231</u>

- (a) As at 31 December 2009, the Group paid deposits of HK\$23,135,000 (2008: HK\$25,888,000) for the purchase of property, plant and equipment for the expansion of the polyethylene pipes and fibre glass reinforced plastic pipes production facilities and paid deposits of HK\$34,096,000 (2008: HK\$Nil) for the purchase and decoration of two properties located in Yichang, the PRC, for training, marketing and selling purposes.

As at 31 December 2008, the Group paid aggregate deposits of RMB58,000,000 (equivalent to HK\$65,574,000) to an intermediate agent for the possible acquisition of an interest in a mine located in the PRC. The deposits were fully refunded to the Group during 2009.

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.

- (b) As at 31 December 2009, current portion of prepayments included HK\$41,800,000 paid to suppliers for future purchases of inventories in anticipation to increase in prices of composite materials.

As at 31 December 2008, current portion included a loan of HK\$9,045,000 due from a third party. This loan was interest-bearing at 1% plus daily PRC bank deposit rates per annum, unsecured and fully settled on 13 March 2009.

22. INVENTORIES

	As at 31 December		
	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Raw materials	358	8,115	25,458
Work in progress	–	4	205
Finished goods	80	973	25,056
	<u>438</u>	<u>9,092</u>	<u>50,719</u>

23. 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 and can be extended three months or more for major customers. The Group has set a maximum credit limit for each customer. 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.

An aging analysis of the trade receivables as at the end of each reporting period, based on the invoice date, is as follows:

	As at 31 December		
	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Within 30 days	–	3,729	7,862
31 – 60 days	–	4,669	743
61 – 90 days	–	13,532	787
Over 90 days	–	23,151	1,396
	<u>–</u>	<u>45,081</u>	<u>10,788</u>

At 31 December 2008 and 2009, all of the Group's trade receivables were neither past due nor impaired and related to customers for whom there was no recent history of default. Consequently, no allowance for doubtful debts was recognised as at the end of the reporting periods.

24. CASH AND CASH EQUIVALENTS

At the end of reporting period, cash and cash equivalents of the Group denominated in Renminbi (“RMB”) amounted to HK\$87,367,000, HK\$64,281,000 and HK\$51,066,000 as at 31 December 2007, 2008 and 2009, respectively. 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.

25. TRADE PAYABLES

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

	As at 31 December		
	2007 HK\$’000	2008 HK\$’000	2009 HK\$’000
Within 30 days	68	1,494	925
31 – 60 days	–	1,661	584
61 – 90 days	–	13	62
Over 90 days	–	10	941
	<u>68</u>	<u>3,178</u>	<u>2,512</u>

26. CONVERTIBLE BONDS

The Group’s outstanding convertible bonds as at 31 December 2007, 2008 and 2009, respectively are as follows:

- (a) The 4.5% convertible bonds were issued to Lehman Brothers Commercial Corporation Asia Limited (In Liquidation) (“Lehman Brothers”) on 31 October 2007 with a 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. As at 31 December 2009, the convertible bonds can be converted into 184,733,481 ordinary shares of the Company. Coupon interest of 4.5% per annum will be paid semi-annually in arrears until the settlement date. In 2008, Lehman Brothers was put into liquidation and LBCCA were appointed. The liquidation of Lehman Brothers is still in progress as of the date of approval of these Financial Information.

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

Since the actual number of the ordinary shares of the Company to be issued under the convertible bonds are subjected to the actual and potential number of new ordinary shares of the Company that may be issued upon full conversion of, or exercise of the subscription rights attaching to, all outstanding convertible preferred shares and share options of the Company and it cannot be determined until the date when the conversion takes place, no adjustments should be made to the convertible bonds in connection with the rights issue and share consolidation.

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 bonds are HK\$220,294,000, HK\$232,552,000 and HK\$241,271,000 as at 31 December 2007, 2008 and 2009 respectively.

- (b) On 27 April 2006, the Company issued 1% convertible bonds to Future Advance Holdings Limited ("Future Advance"), a substantial shareholder of the Company, with a nominal value of HK\$6,270,000. The maturity date of the convertible bonds was three years from the date of issue with a right to convert 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. The Company could at any time before the maturity date redeem the convertible bonds at par. Coupon interest of 1% per annum would be paid annually until the settlement 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 could be converted into 313,503,280 ordinary shares of the Company.

Interest rate on the convertible bonds was 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 were HK\$5,813,000 and HK\$6,228,000 as at 31 December 2007 and 2008 respectively.

On 26 April 2009, the Group had fully redeemed the above convertible bonds.

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, was included in equity, net of deferred taxes.

The convertible bonds recognised in the statements of financial position are calculated as follows:

	As at 31 December		
	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Nominal value of convertible bonds	252,520	252,520	252,520
Equity component	(23,226)	(23,226)	(23,226)
Direct transaction costs attributable to the liability component	(7,087)	(7,087)	(7,087)
Liability component on initial recognition	222,207	222,207	222,207
Accumulated interest expenses recognised	3,962	24,146	44,082
Accumulated interest paid	(62)	(7,573)	(18,623)
Redemption of convertible bonds and related interest	–	–	(6,395)
Liability component at 31 December	226,107	238,780	241,271
Less: current portion	–	(6,228)	(241,271)
Non-current portion	<u>226,107</u>	<u>232,552</u>	<u>–</u>

27. DEFERRED TAX LIABILITIES

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

	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Convertible bonds HK\$'000	Convertible preferred shares HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2007	-	-	-	(19)	(19)
Deferred tax charged to equity	-	(3,541)	(148,923)	-	(152,464)
Deferred tax credit to profit or loss during the year (Note 10)	-	272	-	-	272
At 31 December 2007	-	(3,269)	(148,923)	(19)	(152,211)
Acquisition of equity interest of subsidiaries	(94,144)	-	-	-	(94,144)
Deferred tax credit to profit or loss during the year (Note 10)	61,120	1,631	786	-	63,537
At 31 December 2008	(33,024)	(1,638)	(148,137)	(19)	(182,818)
Deferred tax credit to profit or loss during the year (Note 10)	2,022	817	(655)	-	2,184
At 31 December 2009	(31,002)	(821)	(148,792)	(19)	(180,634)

The Group has tax losses arising in Hong Kong of HK\$52,145,000, HK\$11,666,000 and HK\$1,733,000 as at 31 December 2007, 2008 and 2009 respectively and the PRC of HK\$9,009,000, HK\$15,787,000 and HK\$23,758,000 as at 31 December 2007, 2008 and 2009 respectively that are available for offsetting against future taxable profits of the companies in which the losses arose indefinitely and for five 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:

	As at 31 December		
	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Year of expiry			
2009	553	553	-
2010	482	482	482
2011	794	794	794
2012	7,180	7,180	7,180
2013	-	6,778	5,794
2014	-	-	9,508
Non-current portion	9,009	15,787	23,758

28. CONVERTIBLE PREFERRED SHARES

On 26 October 2007, the authorised convertible preferred shares (the "CPS") capital of HK\$5 million divided into 4,000,000,000 CPS of HK\$0.00125 each was created by the reclassification of the authorised ordinary shares capital. The Company allotted and issued 2,802,235,294 CPS at HK\$0.34 per CPS as at 31 December 2008.

After the rights issue effective on 15 July 2009, the adjusted conversion price per conversion share and adjusted number of ordinary shares of the Company to be converted are HK\$0.265 and 3,593,964,542 respectively. The adjusted conversion price per conversion share and the adjusted number of ordinary shares of the Company to be converted were further adjusted after the share consolidation on 20 August 2009 to HK\$2.651 and 359,396,454 respectively.

The CPS recognised in the Group's statements of financial position is calculated as follows:

	Number of ordinary shares to be issued upon conversion 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 (<i>Note 8</i>)	–	–	794	794
At 31 December 2007	2,802,235,294	753,639	50,992	804,631
Imputed interest (<i>Note 8</i>)	–	–	4,764	4,764
At 31 December 2008	2,802,235,294	753,639	55,756	809,395
Adjustments for completion of				
– rights issue	791,729,248	–	–	–
– share consolidation	(3,234,568,088)	–	–	–
Imputed interest (<i>Note 8</i>)	–	–	4,764	4,764
Interest paid	–	–	(9,528)	(9,528)
At 31 December 2009	359,396,454	753,639	50,992	804,631

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

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 HK\$0.0125 each at the adjusted conversion rate of 0.1283 (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).

29. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Authorised:		
Ordinary share of HK\$0.00125 each at 1 January 2007	100,000,000	125,000
Reclassification (<i>Note (a)</i>)	(4,000,000)	(5,000)
	<hr/>	<hr/>
Ordinary share of HK\$0.00125 each at 31 December 2007 and 2008	96,000,000	120,000
Share consolidation (<i>Note (e)</i>)	(86,400,000)	–
	<hr/>	<hr/>
Ordinary share of HK\$0.0125 each at 31 December 2009	<u>9,600,000</u>	<u>120,000</u>
Issued and fully paid:		
Ordinary share of HK\$0.00125 each at 1 January 2007	6,815,267	8,519
Exercise of warrants (<i>Note (b)</i>)	484,088	605
Exercise of share options (<i>Note (c)</i>)	176,000	220
	<hr/>	<hr/>
Ordinary share of HK\$0.00125 each at 31 December 2007	7,475,355	9,344
Issues of new shares	722,000	903
	<hr/>	<hr/>
Ordinary share of HK\$0.00125 each at 31 December 2008	8,197,355	10,247
Rights issue (<i>Note (d)</i>)	4,098,678	5,123
Share consolidation (<i>Note (e)</i>)	(11,066,430)	–
	<hr/>	<hr/>
Ordinary share of HK\$0.0125 each at 31 December 2009	<u>1,229,603</u>	<u>15,370</u>

Notes:

(a) 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. 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.

(b) 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.

(c) 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.

(d) Rights issue

A rights issue of one rights share for every two existing shares held by members on the register of members on 15 July 2009 was made, at the issue price of HK\$0.02 per rights share, resulting in the issue of 4,098,677,600 shares of HK\$0.00125 each for a total cash consideration of HK\$81,973,552 before expenses.

(e) Share consolidation

On 20 August 2009, an extraordinary general meeting was held to approve the consolidation of every ten existing issued and unissued shares of HK\$0.00125 each in the share capital of the Company into one share of HK\$0.0125 each in the share capital of the Company (the "Consolidation Shares"). Immediately after the share consolidation, the authorised share capital of the Company comprised 1,229,603,000 issued Consolidation Shares of HK\$0.0125 each and 8,370,397,000 unissued Consolidation Shares of HK\$0.0125 each.

30. SHARE OPTIONS SCHEME

The Group currently 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 obligations to repurchase or settle the options.

(a) 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 2009, there were no share options outstanding under the Pre-Scheme.

(b) 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; (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; and (iii) the nominal value of the shares.

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.

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. In 2008, 681,000,000 share options were granted of which 95,000,000 share options lapsed.

The Post-Scheme will remain in force for a period of 10 years with effect from 28 November 2001.

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

Grantees	2007				2008 and 2009								Period during which the options are exercisable	Adjusted exercise price per share
	Balance as at Date of granted	Exercised during the year	Lapsed during the year	Balance as at 31 December 2007	Date of granted	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2008	Rights issue during the year	Share consolidation during the year	Balance as at 31 December 2009		
Ms. Ma Zheng (Director)	3 April 2006	2,700	(2,700)	-	8 January 2008	20,000	-	-	20,000	5,120	(22,608)	2,512	8 July 2008 to 27 November 2011	HK\$1.752
Mr. Chiu Wai-yan (Ex-Director)	3 April 2006	1,000	(1,000)	-	8 January 2008	10,000	-	(10,000)	-	-	-	-	8 July 2008 to 27 November 2011	HK\$1.752
Mr. Wan Tze Fan Terence (Director)	-	-	-	-	8 January 2008	3,000	-	-	3,000	768	(3,391)	377	8 July 2008 to 27 November 2011	HK\$1.752
Mr. Li Weichang (Director)	-	-	-	-	8 January 2008	3,000	-	-	3,000	768	(3,391)	377	8 July 2008 to 27 November 2011	HK\$1.752
Mr. Yu Hongzhi (Ex-director)	3 April 2006	3,800	(3,800)	-	-	-	-	-	-	-	-	-	-	-
Employees	3 April 2006	1,300	(1,300)	-	8 January 2008	645,000	-	(85,000)	560,000	143,360	(633,024)	70,336	8 July 2008 to 27 November 2011	HK\$1.752
		<u>8,800</u>	<u>(8,800)</u>	<u>-</u>		<u>681,000</u>	<u>-</u>	<u>(95,000)</u>	<u>586,000</u>	<u>150,016</u>	<u>(662,414)</u>	<u>73,602</u>		

After the rights issue effective on 15 July 2009, the adjusted price per share option and adjusted number of ordinary shares of the Company to be converted are HK\$0.1752 and 736,016,000 respectively. The adjusted price per share option and the adjusted number of ordinary shares of the Company to be converted were further adjusted after the share consolidation on 20 August 2009 to HK\$1.752 and 73,601,600 respectively.

Employee compensation expenses in the total of HK\$43,548,000 (Note 13) were included in the consolidated income statement for the year ended 31 December 2008. The corresponding amount was credited to employee compensation reserve. No liability was recognised on the equity-settled share-based compensation.

The fair value of equity-settled share options granted during 2008 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 input 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 was 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.

No share options were granted, exercised nor lapsed during 2009. At the end of reporting period and the date of approval of these Financial Information, the Company had 73,601,600 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 73,601,600 additional ordinary shares of the Company, additional share capital of HK\$920,000 and share premium of HK\$128,031,000 (before issue expenses).

31. DEREGISTRATION OF A SUBSIDIARY

Yichang Xin Shougang Precious Metal Mining Limited, a 62.7% owned subsidiary, was deregistered in July 2009.

The net assets of the subsidiary at the date of deregistration were as follows:

	2009 HK\$'000
Property, plant and equipment	100
Cash and cash equivalents	9,256
Minority interests	(3,317)
	<hr/>
Net identifiable assets and liabilities	6,039
Release of exchange translation reserve	(944)
	<hr/>
	5,095
	<hr/> <hr/>
Assets retained by the Group on deregistration:	
Property, plant and equipment	100
Cash and cash equivalent	5,315
Gain on deregistration (<i>Note 7</i>)	(320)
	<hr/>
	5,095
	<hr/> <hr/>

The subsidiary deregistered during 2009 did not have any contribution to either the Group's turnover or the Group's operating results.

32. CAPITAL COMMITMENTS

Capital commitments outstanding at the end of each reporting period not provided for in the Financial Information were as follows:

	As at 31 December		
	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Property, plant and equipment contracted but not provided for	–	84,222	32,588
Property, plant and equipment authorised but not contracted for	–	46,194	–
Proposed investment in an associate contracted but not provided for	3,240	8,950	–
Proposed investment in a venture contracted but not provided for	182,959	–	–
	<u>186,199</u>	<u>139,366</u>	<u>32,588</u>

33. OPERATING LEASE ARRANGEMENTS

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.

At the end of the reporting period, the Group had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

	As at 31 December		
	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Within one year	721	2,455	2,077
After one year but within five years	947	1,891	1,720
	<u>1,668</u>	<u>4,346</u>	<u>3,797</u>

34. 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 as at 31 December 2008 and 2009. 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.

35. 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 below. Except for those disclosed elsewhere in the Financial Information, details of transactions between the Group and other related party are as follows:

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

	For the year ended 31 December		
	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000
Shareholder			
– Convertible bonds interest paid	406	415	167
– Payment for redemption of convertible bonds	–	–	6,395
	<u>406</u>	<u>415</u>	<u>6,562</u>

The Group's convertible bonds interest and payment for redemption of convertible bonds were paid to Future Advance, a shareholder of the Company. Details of the terms of the convertible bonds issued to Future Advance are set out in Note 26(b).

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

36. 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 include the convertible bonds and convertible preferred shares disclosed in Notes 26 and 28 respectively, cash and cash equivalents disclosed in Note 24 and equity attributable to owners of the Company, comprising share capital and reserves as disclosed in Note 29 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. However, due to the impairment of assets and accumulated losses for the past years, the gearing ration has been increasing. It is the management's target to control the gearing ratio at around 10%.

The gearing ratio at the year end was as follows:

	As at 31 December		
	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000
Debts	277,099	294,536	292,263
Cash and cash equivalents	(294,063)	(99,361)	(76,071)
Net debts	<u>(16,964)</u>	<u>195,175</u>	<u>216,192</u>
Equity	<u>2,084,581</u>	<u>1,183,104</u>	<u>408,183</u>
Net debts to equity ratio	<u>N/A</u>	<u>16.5%</u>	<u>52.96%</u>

37. 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 end of reporting period, the Group has a certain concentration of credit risk as 74% (2008: 64%) and 89% (2008: 99%) of the total trade receivables was due from the Group's largest customer and the five largest customers. As at 31 December 2007, the Group did not have trade receivables. Thus, no concentration of credit risk was due from the Group's largest customer and the five largest customers for 2007.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Notes 23 and 21 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.

(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 end of reporting period of the Group'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 end of reporting period) and the earliest date the Group can be required to pay:

	Carrying amount <i>HK\$'000</i>	Total contractual undiscounted cash flow <i>HK\$'000</i>	Within 1 year or on demand <i>HK\$'000</i>	More than 1 year but less than 2 years <i>HK\$'000</i>	More than 2 years but less than 5 years <i>HK\$'000</i>
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	–	–
	<u>228,213</u>	<u>283,887</u>	<u>13,884</u>	<u>17,425</u>	<u>252,578</u>
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	–	–
	<u>256,554</u>	<u>287,777</u>	<u>35,199</u>	<u>252,578</u>	<u>–</u>
2009					
Convertible bonds	241,271	260,902	260,902	–	–
Trade payables	2,512	2,512	2,512	–	–
Other payables and accruals	2,457	2,457	2,457	–	–
	<u>246,240</u>	<u>265,871</u>	<u>265,871</u>	<u>–</u>	<u>–</u>

The above tables do not include the liability component of the Group's CPSs which amounted to HK\$50,992,000, HK\$55,756,000 and HK\$50,992,000 as at 31 December 2007, 2008 and 2009, respectively. Annual interest of HK\$4,764,000 is payable on the convertible preferred shares. Details are disclosed in Note 28.

Further analysis on the liquidity risk of the Group is set out in Note 3(b).

(c) **Interest rate risk**

The Group's fair value interest-rate risk mainly arises from convertible bonds and CPSs as disclosed in Notes 26 and 28 respectively. The convertible bonds and CPSs were issued at fixed rates which expose the Group to fair value interest-rate risk. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

The following table details the interest rate profile of the Group at the end of reporting period.

	2007		2008		2009	
	Effective interest rate	HK\$'000	Effective interest rate	HK\$'000	Effective interest rate	HK\$'000
Variable rate cash and bank balances	0.393%	<u>87,529</u>	1.024%	<u>64,426</u>	0.209%	<u>51,238</u>

It is estimated that as at 31 December 2007, 2008 and 2009, a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's loss after income tax expenses and accumulated losses by HK\$875,000, HK\$645,000 and HK\$513,000 respectively.

(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 operations. Accordingly, the Group did not have a significant exposure to currency risk.

(e) **Price risk – Commodity price risk**

The minerals markets are influenced by global as well as regional supply and demand conditions. Changes 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 2009, 2008 and 2007.

(g) **Fair values estimation**

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subject in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

38. 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 2009 and 2008 may be categorised as follows:

	As at 31 December		
	2007 HK\$'000	2008 HK\$'000	2009 HK\$'000
Financial assets			
Available-for-sale investments at fair value	–	–	314,800
Loans and receivables at amortised cost (including cash and cash equivalents)	<u>294,244</u>	<u>156,589</u>	<u>89,433</u>
Financial liabilities			
Financial liabilities measured at amortised cost	<u>279,205</u>	<u>312,310</u>	<u>297,232</u>

(a) The fair values of available-for-sale investments are calculated using the applicable yield curve for the duration of the instruments for non-optional derivatives.

(b) The following provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Input for the asset or liability that are not based on observable market data (unobservable input).

The Group adopted Level 3 for determining and disclosing the fair value of available-for-sale investments.

The movements in fair value measurements of available-for-sale investments in Level 3 during 2009 were as follows:

	HK\$'000
At 1 January 2009	–
Transfer from interests in associates (Note 20)	1,120,380
Impairment loss recognised in profit or loss (Note 20)	<u>(805,580)</u>
At 31 December 2009	<u>314,800</u>

(IV) SUBSEQUENT EVENTS

Disposal of 12.21% interest in the registered paid up capital of Xin Shougang (the “Sale Interest”)

On 9 April 2010, Yichang Shoukong and Shougang Holdings Limited Liability Company (“Shougang”) entered into a conditional agreement pursuant to which Yichang Shoukong has conditionally agreed to sell, and Shougang has conditionally agreed to purchase the Sale Interest (the “Agreement”). The consideration shall be satisfied by Shougang as to HK\$25.34 million by cash (or RMB22.28 million as agreed between the parties to the Agreement) and with Shougang procuring GORE to transfer the Company’s CPS beneficially held by GORE to the Company at Completion for cancellation pursuant to the terms of the Agreement. The profit or loss on disposal will be determined by reference to the fair value of the liability component and residual value of the equity components for the CPS as at the date of completion. As disclosed in the Company’s announcement dated 22 April 2010, the disposal would result in a loss of HK\$25,157,000 to the Group based on the fair value of CPS as at 9 April 2010.

Xin Shougang together with its wholly owned subsidiary, Chang Yang Xin Shoukong Mining Limited, are principally engaged in mining business. As at the date of this Circular, the principal assets of Xin Shougang are the exclusive rights to invest in, develop and to apply for the mining rights for the mining sites with mainly iron minerals located at Yichang, the PRC.

Completion of the disposal of the Sale Interest is conditional upon, among other things, the proposed repurchase and cancellation of the CPS (“Share Repurchase”) having been approved by the Executive and the Disinterested Shareholders.

- (a) The Group share of the results of Xin Shougang included in the Financial Information during the Relevant Periods were as follows:

	Year ended 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Impairment loss	–	–	(805,580)
Share of profits/(losses)	1,139,370	(1,155,573)	(10,282)
Profits/(loss) for the year	<u>1,139,370</u>	<u>(1,155,573)</u>	<u>(815,862)</u>
Other comprehensive income			
Exchange differences on translation	–	134,220	18,106
Total comprehensive income for the year	<u>1,139,370</u>	<u>(1,021,353)</u>	<u>(797,756)</u>

- (b) The Group's interest in Xin Shougang as at 31 December 2007, 2008 and 2009 as included in the Financial Information were as follows:

	As at 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Interests in associates	2,133,361	1,112,008	–
Available-for-sale investments	–	–	314,800
Equity interest in total	<u>2,133,361</u>	<u>1,112,008</u>	<u>314,800</u>
Equity interest held	<u>22.28%</u>	<u>22.28%</u>	<u>12.21%</u>

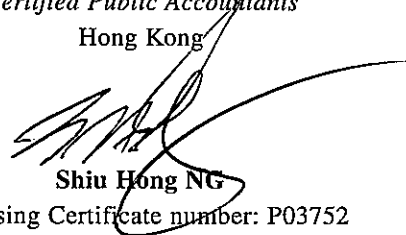
- (c) The cash flows of the disposal of Xin Shougang included in the Financial Information during the Relevant Periods were as follows:

	Year ended 31 December		
	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) before income tax	1,139,370	(1,155,573)	(815,862)
Adjustment for:			
Impairment loss on available-for-sale investments	-	-	805,580
Share of (profits)/losses of associates, net	(1,139,370)	1,155,573	10,282
	<u> </u>	<u> </u>	<u> </u>
Net cash flows	<u> </u>	<u> </u>	<u> </u>

(V) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Company and its subsidiaries in respect of any period subsequent to 31 December 2009 and up to the date of this report.

Yours faithfully,
 For and on behalf of
BDO Limited
Certified Public Accountants
 Hong Kong



Shiu Hong NG
 Practising Certificate number: P03752