THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold all your shares in China Primary Resources Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser.

PRIMARY RESOURCES

中國基礎資源控股有限公司

CHINA PRIMARY RESOURCES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8117)

(1) VERY SUBSTANTIAL DISPOSAL INVOLVING THE PROPOSED DISPOSAL OF 12.21% INTEREST IN THE REGISTERED PAID UP CAPITAL OF XIN SHOUGANG; (2) OFF-MARKET REPURCHASE OF PREFERRED SHARES; AND (3) DECREASE IN AUTHORISED SHARE CAPITAL

Independent Financial Adviser
to the Independent Board Committee and the Disinterested Shareholders

VINCO 域高

Grand Vinco Capital Limited

(A wholly-owned subsidiary of Vinco Financial Group Limited)

Capitalised terms used on this cover shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter of recommendation from the Independent Board Committee and a letter of advice from Vinco Capital in respect of the Transactions are set out on page 23 and pages 24 to 37 of this circular respectively.

A notice convening the EGM to be held at Suite 1415, Ocean Centre, 5 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong on Monday, 28 June 2010 at 11:00 a.m. is set out on pages 185 to 186 of this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

This circular will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and the Company's designated website at http://china-p-res.etnet.com.hk.

8 June 2010

CHARACTERISTICS OF GEM

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

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

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In this circular, unless the context requires otherwise, the following expressions shall have the following meanings:

"Acquisition"	the acquisition of the then 22.28% of the registered paid up capital of Xin Shougang held directly and indirectly by GORE and GORE Mining Technology respectively by Yichang Shoukong pursuant to the terms of the Acquisition Agreement
"Acquisition Agreement"	the agreement dated 14 November 2006 entered into between Yichang Shoukong and GORE in relation to the Acquisition (as supplemented by the supplemental deeds dated 5 January 2007, 2 February 2007 and 11 June 2007)
"acting in concert"	has the meaning ascribed to it under the Takeovers Code
"Agreement"	the conditional agreement dated 9 April 2010 entered into between Yichang Shoukong and Shougang in relation to, among other things, the Disposal and the Share Repurchase
"Announcement"	the announcement of the Company dated 22 April 2010 in relation to, among other things, the Disposal and the Share Repurchase
"Articles"	the articles of association of the Company
"associate(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday) on which banks are open for business in Hong Kong
"Chang Yang Mining"	長陽新首鋼礦業有限公司 (transliterated as Chang Yang Xin Shoukong Mining Limited), a company established in the PRC with limited liability and a wholly-owned subsidiary of Xin Shougang
"Company"	China Primary Resources Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on GEM
"Companies Law"	The Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Completion"	completion of the sale and purchase of the Sale Interest in accordance with the Agreement

"connected person(s)"	has the meaning ascribed to it under in the GEM Listing Rules
"Consideration"	the total consideration of HK$314,800,000 payable by Shougang to be satisfied by cash and the Repurchase Shares pursuant to the Agreement
"Conversion Share(s)"	new Share(s) which may fall to be issued by the Company upon the exercise of the conversion rights attached to the Preferred Share(s) at the prevailing conversion rate
"Convertible Bonds"	the 4.5% convertible bonds of the Company in the principal amount of HK$246,250,000 issued by the Company to Lehman Brothers pursuant to the Subscription Agreement which are convertible into 184,733,481 Shares as at the Latest Practicable Date at the prevailing conversion price
"Cooperation Agreement"	the cooperation agreement entered into between Shougang and Yichang City Government dated 26 June 2006 in relation to, among other things, the appointment of Xin Shougang as the sole investor and developer of the Mining Sites
"Director(s)"	director(s) of the Company
"Disinterested Shareholders"	the Shareholders (other than those who are required to abstain from voting under the GEM Listing Rules, the Repurchase Code, the Articles and the applicable laws, rules and regulations)
"Disposal"	the proposed disposal of the Sale Interest by Yichang Shoukong to Shougang pursuant to the terms of the Agreement
"EGM"	the extraordinary general meeting of the Company to be held on 28 June 2010 for the purpose of considering, and if thought fit, approving the Agreement and the transactions contemplated thereunder, the Disposal, the Share Repurchase and the decrease in the authorised share capital of the Company
"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any of his delegates
"Future Advance"	Future Advance Holdings Limited, a company incorporated in the British Virgin Islands with limited liability
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM

"GORE"	Great Ocean Real Estate Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly and beneficially owned by 張征 (Mr. Zhang Zheng) as at the Latest Practicable Date
"GORE Mining Technology"	宜昌泰鴻礦山科技有限公司 (transliterated as Yichang Tai Hong Mining Technology Company Limited), a company established in the PRC with limited liability and a wholly-owned subsidiary of GORE
"Greater China"	Greater China Appraisal Limited, the independent qualified valuer engaged by the Company in relation to the valuation on the Sale Interest
"Group"	the Company and its subsidiaries
"HKFRS"	the Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the committee of the Board comprising all the independent non-executive Directors, namely Mr. Wan Tze Fan Terence, Mr. Liu Weichang and Mr. Chung Chin Keung, for the purpose of advising and giving recommendation to the Disinterested Shareholders on the Transactions
"Independent Third Party(ies)"	person(s) or company(s) who/which is/are not connected with the directors, chief executive or substantial shareholders (as defined under the GEM Listing Rules) of the Company and its subsidiaries, or any of their respective associates
"Last Trading Day"	9 April 2010, being the last full day of trading in Shares on the Stock Exchange before the release of the Announcement
"Latest Practicable Date"	4 June 2010, being the latest practicable date prior to printing of this circular for ascertaining certain information contained in this circular
"Lehman Brothers"	Lehman Brothers Commercial Corporation Asia Limited (in liquidation) which was put into liquidation in 2008 and liquidators were appointed therefor
"Mining Rights"	the rights to operate the Mining Sites
"Mining Sites"	the mining sites located at or near Yichang City, Hubei Province, the PRC, as referred to in the Cooperation Agreement

"PRC"	the People's Republic of China, which for the purposes of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Preferred Share(s)"	the non-voting redeemable convertible preferred share(s) of HK$0.00125 each in the existing share capital of the Company carrying rights to convert into Conversion Share(s)
"Relevant Period"	the period commencing six months prior to 22 April 2010, being the date of the Announcement, up to and including the Latest Practicable Date
"Remaining Group"	the Group immediately after Completion
"Repurchase Code"	the Hong Kong Code on Share Repurchases
"Repurchase Price"	the proposed repurchase price of HK$0.1033 per Repurchase Share
"Repurchase Shares"	2,802,235,294 Preferred Shares beneficially held by GORE and to be transferred to the Company at Completion for cancellation pursuant to the terms of the Agreement
"Sale Interest"	the 12.21% equity interest in the registered paid up capital of Xin Shougang
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SFO register"	the register of substantial shareholders required to be maintained by the Company pursuant to section 336 of the SFO
"Share(s)"	ordinary share(s) of HK$0.0125 each in the existing share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Share Options"	73,601,600 share options granted under the share option scheme adopted by the Company which remain outstanding as at the Latest Practicable Date
"Share Repurchase"	the proposed repurchase and cancellation of the Repurchase Shares by the Company under the Agreement, which constitutes an off-market share repurchase by the Company pursuant to Rule 2 of the Repurchase Code

"Shougang"	首鋼控股有限責任公司 (transliterated as Shougang Holdings Limited Liability Company), a company established in the PRC with limited liability
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Agreement"	the subscription agreement dated 12 June 2007 entered into, among others, between the Company and Lehman Brothers in relation to the subscription of the Convertible Bonds by Lehman Brothers
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Transactions"	together, the Disposal and the Share Repurchase
"Vinco Capital"	Grand Vinco Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance), regulated activities as defined under the SFO and is the independent financial adviser to the Independent Board Committee and Disinterested Shareholders regarding the terms of the Agreement (including the Share Repurchase)
"Xin Shougang"	新首鋼資源控股有限公司 (transliterated as Xin Shougang Zi Yuan Holdings Limited), a company established in the PRC with limited liability
"Xin Shougang Group"	Xin Shougang and Chang Yang Mining
"Yichang Shoukong"	宜昌首控實業有限公司 (transliterated as Yichang Shoukong Industries Co., Limited), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

For ease of reference, the names of companies and entities established in the PRC have been included in this circular in both Chinese and English languages and the English names of these companies and entities are either English translation of their respective official Chinese names or English tradenames used by them. In the event of any inconsistency between the English names and their respective official Chinese names, the Chinese names shall prevail.

中國基礎資源控股有限公司
CHINA PRIMARY RESOURCES HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8117)

Executive Directors:
Ms. MA Zheng *(Chairman)*
Mr. WONG Pui Yiu

Independent Non-Executive Directors:
Mr. WAN Tze Fan Terence
Mr. LIU Weichang
Mr. CHUNG Chin Keung

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

Head Office and Principal Place of Business in Hong Kong:
Suite 1415, Ocean Centre
5 Canton Road
Tsim Sha Tsui
Kowloon
Hong Kong

8 June 2010

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL DISPOSAL INVOLVING THE PROPOSED DISPOSAL OF 12.21% INTEREST IN THE REGISTERED PAID UP CAPITAL OF XIN SHOUGANG; (2) OFF-MARKET REPURCHASE OF PREFERRED SHARES; AND (3) DECREASE IN AUTHORISED SHARE CAPITAL

INTRODUCTION

On 9 April 2010 (after trading hours of the Stock Exchange), Yichang Shoukong, a wholly-owned subsidiary of the Company, and Shougang entered into the Agreement pursuant to which Yichang Shoukong has conditionally agreed to sell, and Shougang has conditionally agreed to purchase, the Sale Interest at an aggregate consideration of HK$314.8 million. 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 as to HK$289.46 million by way of procuring GORE to transfer to the Company the Repurchase Shares for repurchase and cancellation subject to the terms and upon fulfillment of the conditions of the Agreement.

The Sale Interest represents 12.21% of the registered paid up capital of Xin Shougang as at the Latest Practicable Date. The Xin Shougang Group is principally engaged in mining business. As at the Latest Practicable Date, 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 City, Hubei Province, the PRC.

Completion of the Disposal is conditional on, among other things, the Share Repurchase having been approved by the Executive and the Disinterested Shareholders.

THE DISPOSAL AND THE SHARE REPURCHASE

A. THE AGREEMENT

Date: 9 April 2010 (after trading hours of the Stock Exchange)

Parties:

Vendor: Yichang Shoukong, a wholly-owned subsidiary of the Company

Purchaser: Shougang, a company established in the PRC with limited liability

Shougang is principally engaged in investment holding and asset management. According to the information provided by Shougang, its ultimate beneficial shareholder is 首鋼總公司 (transliterated as Shougang Corporation), a company established in the PRC and owned by the PRC government. Shougang Corporation also has interests in several Hong Kong listed companies and a company listed in Shenzhen. As at the Latest Practicable Date, Shougang does not hold any shares or other securities of the Company. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Shougang and its ultimate beneficial owner(s) are third parties independent of Yichang Shoukong and the Company and their respective connected persons.

Assets to be disposed of:

The Sale Interest, being 12.21% interest in the registered paid up capital of Xin Shougang. Further information on Xin Shougang is set out in the section headed "Information on the Xin Shougang Group" below.

Consideration

Pursuant to the Agreement, the consideration for the Sale Interest is HK$314,800,000, which shall be satisfied by Shougang in the following manner:

(i) as to HK$25,340,000 (or RMB22,280,000 as agreed between the parties to the Agreement) (the "**Deposit**") has been paid in cash within 30 days from the date of the Agreement; and

(ii) as to HK$289,460,000 by Shougang procuring GORE to transfer to the Company the Repurchase Shares for cancellation at a price of approximately HK$0.1033 per Repurchase Share at Completion.

At Completion, the Repurchase Shares will be cancelled in accordance with the Companies Law. The Repurchase Shares to be transferred to the Company shall be free from all encumbrances of any nature and together with all rights attaching to them as at the date of Completion, including the rights to receive in full all dividends and distributions, if any, declared, made or paid on or after the date of Completion.

The Consideration was determined between the Group and Shougang after arm's length negotiations having taken into account (i) the form of consideration paid by the Group when the Group first acquired the then 22.28% interest in Xin Shougang in 2007; (ii) the carrying value of the Sale Interest of approximately HK$314.8 million as at 31 December 2009; (iii) the past performance of the Xin Shougang Group in the preceding years; and (iv) the latest development of the Xin Shougang Group. Further details of the Xin Shougang Group are set out in the section headed "Information on the Xin Shougang Group" below.

The Repurchase Shares

As at the Latest Practicable Date, the Company has a total of 2,802,235,294 Preferred Shares in issue which are beneficially held by GORE. Upon full conversion of the Repurchase Shares at the prevailing conversion rate, a total of 359,396,454 Conversion Shares will be issued, representing approximately 29.2% of the issued share capital of the Company as at the Latest Practicable Date and approximately 22.6% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares. Upon Completion, the Repurchase Shares will be transferred to the Company for cancellation at the consideration of HK$289,460,000, representing a price of approximately HK$0.1033 per Repurchase Share or a price of approximately HK$0.8054 per Conversion Share.

The price of approximately HK$0.8054 per Conversion Share represents:

(i) a premium of approximately 576.8%% over the closing price of HK$0.119 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;

(ii) a premium of approximately 304.7% over the closing price of HK$0.199 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a premium of approximately 316.9% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK$0.1932 per Share;

(iv) a premium of approximately 320.4% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day of approximately HK$0.1916 per Share; and

(v) a premium of approximately 164.2% over the audited net assets value per Share attributable to equity holders of the Company as at 31 December 2009 of approximately HK$0.3049 (based on the audited net assets attributable to the Company's equity holders of approximately HK$374,926,000 as set out in the annual report of the Company for the year ended 31 December 2009 and 1,229,603,280 Shares then in issue).

The Repurchase Price has been negotiated between the parties to the Agreement on an arm's length basis after taking into account (i) the removal of the possible dilution effect on the Shareholders from conversion of the Repurchase Shares into Conversion Shares; (ii) the reduction of the financial liability component and deferred tax liabilities in relation to the Repurchase Shares by an amount of approximately HK$50,992,000 and HK$148,792,000 as at 31 December 2009 respectively from the accounts of the Company as a result of the cancellation; and (iii) the carrying values of the equity component of the Repurchase Shares of approximately HK$753,639,000 as at 31 December 2009.

Conditions precedent

Completion shall be conditional upon the fulfillment or waiver (as the case may be) of the conditions precedent set out below:

(i) the necessary approval by the Executive for any off-market share repurchases to be made by the Company pursuant to the Agreement, including (where applicable) the purchase, redemption and cancellation of the Repurchase Shares under the Agreement, having been granted pursuant to Rule 2 of the Repurchase Code and not revoked prior to Completion and any condition(s) to which such approval is/are subject to having been satisfied in all respects;

(ii) the Disinterested Shareholders having passed the necessary resolution(s) at the general meeting of the Company to approve the Agreement and the transactions contemplated thereunder, including but not limited to the disposal of the Sale Interest, the Share Repurchase, and the extinguishment of the Preferred Share class in the authorised share capital of the Company, under the Agreement in accordance with the GEM Listing Rules, the Repurchase Code, the Articles and the applicable laws, rules and regulations;

(iii) any other written consent, consent, approval or authorisation of any kind from Lehman Brothers required under the Subscription Agreement of the Convertible Bonds for approving the disposal of the Sale Interest by Yichang Shoukong contemplated under the Agreement having been obtained;

(iv) all the necessary consent, approval or authorisation of any kind required for the entering into the Agreement having been obtained by Shougang;

(v) without prejudice to condition (iii) above, all the necessary consent, approval or authorisation of any kind required for the entering into the Agreement having been obtained by Yichang Shoukong;

(vi) any approval, filing, registration or other approvals from the relevant PRC government departments and other authorities having been obtained by Xin Shougang in compliance with the requirements of the PRC laws for the transfer of the Sale Interest and such approval(s), filing(s), registration(s) and other approval(s) is/are not attached with any condition(s), amendment(s) and restriction(s) that is/are unacceptable by Yichang Shoukong;

(vii) the Company having sufficient reserves to effect the Share Repurchase;

(viii) the representations and warranties given by Shougang under the Agreement remaining true, accurate and not misleading in all material respect; and

(ix) the representations and warranties given by Yichang Shoukong under the Agreement remaining true, accurate and not misleading in all material respect.

Condition (iii) above is required because under the Subscription Agreement relating to the Convertible Bonds entered into, among others, between Lehman Brothers and the Company on 12 June 2007, the Company has provided an undertaking to Lehman Brothers that the Company shall not enter into any agreements to dispose of, and shall not dispose of, any interests in Xin Shougang, except with the prior consent of Lehman Brothers (such consent shall not be unreasonably withheld or delayed). Reference can be made to the circular of the Company dated 5 September 2007 and the announcement of the Company dated 13 June 2007 for details relating to the issue of the Convertible Bonds. The Company has been in the process of negotiating with Lehman Brothers regarding the Disposal since February 2010. However, the Company has been informed that Lehman Brothers is not in a position to grant its consent to the Disposal yet since they have not had sufficient information to determine so. The Company is still in discussion with Lehman Brothers to seek its consent to the Disposal in the meantime. In order to reasonably comply with the requirements under the Subscription Agreement, obtaining the consent of the Lehman Brothers has been included in the Agreement as a condition precedent to completion of the Disposal. Without the consent of the Lehman Brothers, the Disposal will not be completed. In the event that the Company is not able to obtain the consent of the Lehman Brothers and hence the Disposal cannot be completed, the Company will not be liable for any compensation payment to Shougang pursuant to the terms of the Agreement.

Yichang Shoukong and Shougang may waive the conditions (viii) and (ix) above respectively. All other conditions are incapable of being waived. In the event that all the conditions are not fulfilled or waived (as the case may be) on or before 30 September 2010 (or such later date as may be agreed by the parties to the Agreement in writing), the Agreement will cease and determine and none of the parties shall have claim against the other save for antecedent breach.

If non-fulfillment of the above conditions is due to the fault of Shougang, Yichang Shoukong shall be entitled to forfeit the Deposit as compensation. If, however, non-fulfillment of the above conditions is due to reasons other than Shougang's fault, Yichang Shoukong shall within five Business Days refund the Deposit (without interest) to the Shougang as full and final settlement of all claims in connection with the Agreement whatsoever.

As at the Latest Practicable Date, except for condition (vii), none of the conditions have been fulfilled.

Completion

Completion shall take place on any days falling on or before the third Business Day after the fulfillment or waiver (as the case may be) of the conditions precedent to the Agreement or such other date as the parties to the Agreement may agree in writing.

B. INFORMATION ON THE XIN SHOUGANG GROUP

Background

Xin Shougang was established in the PRC with limited liability on 18 October 2005 for the purpose of mine resources development, asset management and provision of investment management consultancy services in Yichang City, Hubei Province, the PRC. Before completion of the Acquisition, Xin Shougang was beneficially owned as to 65% by Shougang and 35% by GORE. As disclosed in the announcement of the Company dated 9 January 2007, Shougang entered into a framework agreement with Yichang City Government in relation to the exploration of the Mining Sites at Yichang City on 26 September 2005. On 26 June 2006, Shougang and Yichang City Government entered into the Cooperation Agreement, pursuant to which Xin Shougang was appointed as the sole investor and the developer of the Mining Sites.

On 14 November 2006, Yichang Shoukong entered into the Acquisition Agreement with GORE, pursuant to which Yichang Shoukong conditionally agreed to acquire from GORE Mining Technology, a wholly-owned subsidiary of GORE, its then 22.28% interest in the registered paid up capital of Xin Shougang for an aggregate consideration of approximately HK$971 million. The aforesaid consideration was satisfied by the Group (i) as to HK$18 million by cash; and (ii) as to HK$953 million by the issue of 2,802,235,294 Preferred Shares, which are convertible into Conversion Shares. Prior to entering into the Acquisition Agreement, the Group had been seeking investment opportunities to broaden the Group's source of income as well as to diversify its risks from concentrating on the then existing trading and production business. The Directors considered that the growth of the natural resources industry was well supported by the continued economic growth and accelerated industrialisation and urbanisation in the PRC and therefore the Acquisition represented a good opportunity for the Group to ride on the booming natural resources business. At the time of entering into the Acquisition Agreement, Xin Shougang had obtained the mining rights at Chang Yang Haoshaoping and was in the course of renewing the mining rights at Qin Gan Ping Village. The Directors understood that Xin Shougang was then applying for, but were yet to obtain, the remaining Mining Rights in accordance with the Cooperation Agreement and Yichang City Government undertook to assist Xin Shougang in completing the acquisitions for the Mining Rights. Based on the then available information to the Board, the Directors formed the view that Xin Shougang would be able to obtain the Mining Rights for the rest of the Mining Sites.

The Acquisition was completed on 26 October 2007 and Xin Shougang was then accounted for as an associated company of the Group. The Group does not have board representation in Xin Shougang or any representatives participating in the daily operations of the Xin Shougang Group. As at 31 December 2007, the carrying value of the Group's interest in Xin Shougang was approximately HK$2,133.4 million. Details of the Acquisition Agreement were set out in the announcements of the Company dated 9 January 2007 and 2 February 2007 and the circular of the Company dated 5 September 2007.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save for (i) the interests in Xin Shougang and (ii) the holding of 2,802,235,294 Preferred Shares, GORE and its ultimate beneficial owners are third parties independent of the Company and the Company's connected persons.

Recent developments

During 2008, commodity prices dropped drastically due to the global financial tsunami. The Directors determined that the carrying values of the Mining Rights and intangible assets of the Xin Shougang Group should be reassessed to reflect the sharp falls in commodity prices. Consequently, a significant impairment loss was recorded by the Group, resulting in the carrying value of Xin Shougang being reduced to HK$1,112.0 million as at 31 December 2008.

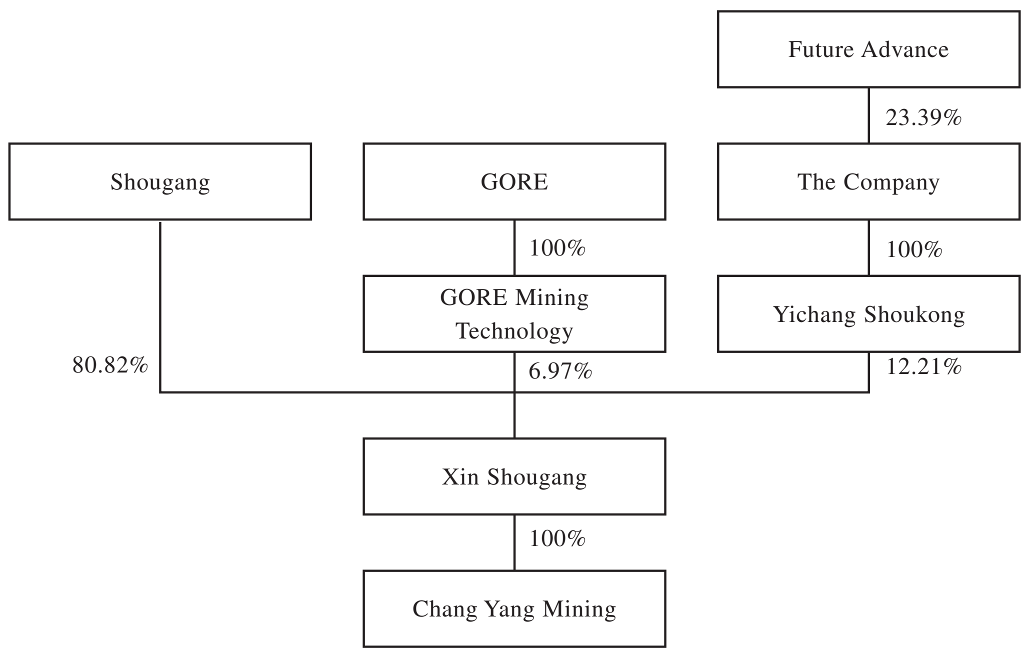
During 2008 and 2009, the global economic downturn and the fluctuations in the commodity market adversely affected the progress of the mining operation of Xin Shougang. As a result, Xin Shougang's mining operation was significantly delayed. In April 2009, the Group's interest in Xin Shougang was diluted from approximately 22.28% to 12.21% mainly due to the injection of additional capital into Xin Shougang by Shougang for the purpose of providing working capital to Xin Shougang in light of the delay in operation of the mining business. Since then, the Group's interest in Xin Shougang has been accounted for as an available-for-sale investment of the Company. The Company has engaged Greater China to perform a valuation on the Sale Interest as at 31 December 2009. The valuation of the Sale Interest as at 31 December 2009 was approximately HK$314.8 million.

Since completion of the Acquisition, there has not been much development in the Xin Shougang Group except for the recent construction of a processing plant in Yichang. Based on the Directors' knowledge, information and belief having made reasonable enquiries, the Xin Shougang Group has not commenced mining of any Mining Sites since completion of the Acquisition. Due to the delay in development of the certain mining sites by the Xin Shougang Group, Xin Shougang has been formally informed by the Yichang City Government that the mining rights for the mining sites with mineral resources other than iron, which include silver vanadium and manganese at or near Yichang City, Hubei Province, the PRC, would not be granted to Xin Shougang. As at the Latest Practicable Date, the principal assets of Xin Shougang were 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 City, Hubei Province, the PRC and the entire interest in Chang Yang Mining which is engaged in mining business.

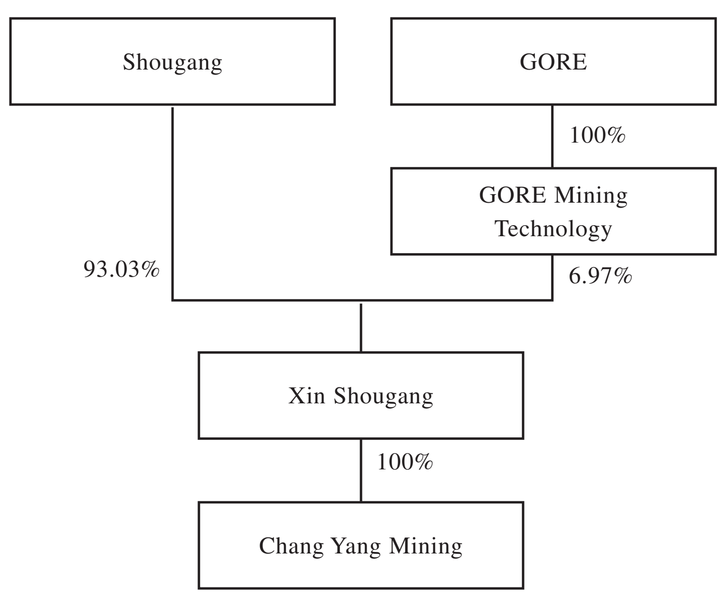
Shareholding structures

Set out below are the simplified shareholding structures of the Xin Shougang Group as at the Latest Practicable Date and immediately upon Completion:

As at the Latest Practicable Date



Immediately upon Completion



Financial information

Set out below is a summary of the combined financial information of the Xin Shougang Group prepared in accordance with HKFRS for the two years ended 31 December 2008 and 2009:

	For the year ended 31 December	
	2009	**2008**
	RMB million	*RMB million*
	(unaudited)	(unaudited)
Loss before taxation	2,061	4,588
Loss after taxation	2,061	4,588

	As at 31 December	
	2009	**2008**
	RMB million	*RMB million*
	(unaudited)	(unaudited)
Net assets	2,459	4,415
Total assets	2,590	4,613

C. BACKGROUND OF AND REASONS FOR THE TRANSACTIONS

Prior to completion of the Acquisition, the Group was principally engaged in the general trading of fibre glass reinforced plastic pipes ("FRP Pipes"), raw materials and composite materials, and production of FRP Pipes and polyethylene pipes ("PE Pipes") in the PRC. The Group entered into the Acquisition Agreement with a view to broadening the business scope and earning base of the Group and diversifying its business risk. At present, the Group is principally engaged in manufacture and sale of PE Pipes and FRP Pipes, sale of composite materials, and mining business that operates primarily in the markets of the independent sovereign state of Mongolia and the PRC. The latter is operated through its available-for-sale investments.

As mentioned above, there has not been much development in the Xin Shougang Group since completion of the Acquisition. The Group, however, cannot exert significant influence on the business development and operation of the Xin Shougang Group as it does not have any board representation or operational involvement. In light of the plunge in commodity prices during 2008, the Group recorded share of associated company's loss of approximately HK$1,155.6 million, which was mainly related to the impairment of the carrying value of the Mining Rights held by the Xin Shougang Group. After recognising the aforesaid loss, the carrying value of the Sale Interest was approximately HK$1,112.0 million in the audited consolidated financial statements of the Company as at 31 December 2008. The loss attributable to owners of the Company amounted to approximately HK$1,244.0 million for the year ended 31 December 2008.

The Company announced on 9 February 2010 and 15 March 2010 that there might be a significant impact on the financial position of the Group for the year ended 31 December 2009 due to a significant impairment loss on the Sale Interest. According to the annual results announcement released on 29 March 2010, the carrying value of the Sale Interest as at 31 December 2009 was approximately HK$314.8 million, representing a decrease of approximately HK$797.2 million in value as compared with the carrying value as at 31 December 2008. The Company recorded a loss attributable to owners of the Company of approximately HK$864.1 million for the year ended 31 December 2009.

In view of the volatility of commodity prices and the uncertainty in the development of the Mining Sites, the Directors consider that it is difficult to gauge the possibility of further impairment on the Sale Interest should the Group choose to retain the Sale Interest. At the same time, it is impracticable for the Directors to estimate the magnitude of the impairment given the uncertainties involved. Notwithstanding that impairment losses recognised in 2008 and 2009 did not have any effect on the Group's cash flows, they did pose immense negative effect on the Group's profit and loss and thus hinder the Group's growth and ability to distribute dividend in the future. In the circumstances, the Directors consider the Disposal to be a prudent and commercially sound decision which enables the Company to minimise further damages that the Sale Interest may cause to the Group.

In 2007, the Group paid HK$18 million cash and issued 2,802,235,294 Preferred Shares for the Acquisition. Pursuant to the terms of the Agreement, the Group will receive cash of approximately HK$25.3 million (or RMB22.28 million as agreed between the parties to the Agreement) and 2,802,235,294 Preferred Shares for cancellation as consideration for the Disposal. The Disposal, in essence, would allow the Group to unwind the Acquisition Agreement, recoup its entire acquisition costs (cash portion) in the Xin Shougang Group plus additional HK$7.3 million cash (being the difference between cash portion of the consideration for the Disposal and the Acquisition of approximately HK$25.3 million and HK$18.0 million respectively) and avoid the potential further impairment on the Sale Interest.

Taking into account that (i) the Group's financial position may continue to be undermined by the impairment on the Sale Interest; (ii) the Group's interests in the Xin Shougang Group may be further diluted without new capital contribution by the Group if the Group retains the Sale Interest; (iii) the prospects of the Xin Shougang Group remain uncertain in the near future; (iv) the Group can recoup its acquisition costs in Xin Shougang (i.e. HK$18 million cash and 2,802,235,294 Repurchase Shares) and receive additional HK$7.3 million cash; and (v) the Disposal will provide the Group immediate cash inflow in the amount of approximately HK$25.3 million as part of the Consideration upon Completion which may be used to develop and expand the existing business of the Group, the Directors consider that the Transactions are in the interests of the Company and the Shareholders as a whole and the terms of the Disposal (including the Consideration and the terms of the Share Repurchase) are fair and reasonable.

D. FINANCIAL EFFECTS OF THE TRANSACTIONS

The Repurchase Shares are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. As at 31 December 2009, the carrying values of the liability component and equity component of Repurchase Shares were approximately HK$50,992,000 and HK$753,639,000 respectively.

On the date of Completion, the Company will measure the Repurchase Shares at the prevailing fair value based on the indicative valuation to be performed by professional valuers. The fair value of the Repurchase Shares will be allocated into the financial liability component at fair value and equity component at the residual value and state them through profit or loss and retained earnings respectively. The gain on the Share Repurchase of HK$4,288,000 based on the position as at 9 April 2010 for the purpose of this circular represents the difference between the carrying value of the financial liability component of the Repurchase Shares of HK$50,992,000 and the fair value of the financial liability component of HK$46,704,000 as at the date of Completion. The loss on Disposal of HK$25,157,000 is based on (i) the aggregate of the cash consideration of HK$25,340,000 and the fair value of the Repurchase Shares of HK$114,977,000 as at 9 April 2010 (as if this was the date of Completion) for the purpose of this circular, less the carrying value of Sale Interest of HK$314,800,000; and (ii) the release of the Group's exchange reserve related to the Xin Shougang Group of HK$152,326,000, less estimated expenses incurred for the Disposal of HK$3,000,000.

The Group therefore records a net loss of HK$20,869,000 in the Share Repurchase and Disposal.

The estimated difference of HK$685,366,000 between the carrying value and fair value of the equity component of the Repurchase Shares and the release of deferred tax liabilities attributable to the Repurchase Shares of HK$148,792,000 will be recorded as transfers to the Group's accumulated losses.

Other financial effects

(a) Financial positions

Based on the unaudited pro forma financial information on the Remaining Group set out in Appendix II to this circular, the total liabilities of the Group would decrease from HK$477.9 million to HK$278.1 million. The total assets of the Group would decrease from HK$886.0 million to HK$593.6 million. The Group's net asset value per Share as at 31 December 2009 would decrease from approximately HK$0.33 to HK$0.26.

(b) Working capital

Net proceeds from the Disposal, of approximately HK$22,340,000 would improve the working capital of the Group. The Group's working capital as at 31 December 2009 would have increased by approximately HK$22,340,000.

(c) Earnings/(Loss) per Share

As shown on the unaudited pro forma financial information on the Remaining Group set out in Appendix II to this circular, assuming that the Transactions had been completed, the Group's loss per Share for the year ended 31 December 2009 would have decreased from approximately HK$0.865 to approximately HK$0.065 as a result of the Share Repurchase and Disposal.

It is expected that completion of the Transactions would not have any material adverse effect on liabilities, net asset per Share, working capital and earnings/(loss) per Share of the Group.

E. USE OF PROCEEDS

The Company intends to apply the net proceeds from cash portion of the Consideration of approximately HK$22.3 million for general working capital purposes.

F. EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates the Company's shareholding structure (i) as at the Latest Practicable Date; (ii) assuming full conversion of the Repurchase Shares; and (iii) upon cancellation of the Repurchase Shares.

Shareholders	As at the Latest Practicable Date		Assuming full conversion of the Repurchase Shares		Upon cancellation of the Repurchase Shares	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
Future Advance *(Note 1)*	287,619,446	23.4%	287,619,446	18.1%	287,619,446	23.4%
Mr. Yu Hongzhi *(Note 1)*	11,400,000	0.9%	11,400,000	0.7%	11,400,000	0.9%
Ms. Ma Zheng *(Note 2)*	8,100,000	0.7%	8,100,000	0.5%	8,100,000	0.7%
Super Grand Investments Limited *(Note 3)*	129,436,878	10.5%	129,436,878	8.1%	129,436,878	10.5%
GORE *(Note 4)*	–	–	359,396,454	22.6%	–	–
Other public Shareholders	793,046,956	64.5%	793,046,956	50.0%	793,046,956	64.5%
Total	**1,229,603,280**	**100.0%**	**1,588,999,734**	**100.0%**	**1,229,603,280**	**100.0%**

Notes:

1. Future Advance is a limited liability company incorporated in the British Virgin Islands. Future Advance is beneficially owned as to 37.5% by China Zong Heng Holdings Limited (which is in turn 100% beneficially owned by Mr. Yu Hongzhi), 12.5% by Ms. Ma Zheng who is the sole director of Future Advance, 27% by Zhong Nan Mining Group Limited (which is in turn 100% beneficially owned by Mr. Zhang Lei), 13% by Mr. Wu Yong Jin and the remaining 10% by Ms. Ma Yi.

2. Ms. Ma Zheng is the sole director of Future Advance and an executive Director.

3. Super Grand Investments Limited is a wholly-owned subsidiary of APAC Resources Limited, the issued shares of which are listed on the main board of the Stock Exchange.

4. As at the Latest Practicable Date, GORE, a company incorporated in the British Virgin Islands with limited liability, held the 2,802,235,294 Preferred Shares which entitles GORE to convert into 359,396,454 Shares at the conversion price of HK$2.651 per Share. The Preferred Shares in issue carry conversion right to convert into Shares at the prevailing conversion rate of 1:0.1282 (after the adjustment from the initial conversion rate of 1:1 to 1:1.2825 on 16 July 2009 and the further adjustment to 1:0.1282 on 20 August 2009). Details of the prevailing conversion rate and conversion price of the Repurchase Shares are set out in the announcement of the Company dated 20 August 2009.

5. As at the Latest Practicable Date, there were 73,601,600 outstanding Share Options entitling the holders thereof to subscribe for a total of 73,601,600 new Shares and the Convertible Bonds entitling the holder to convert into 184,733,481 new Shares. Upon Completion, the conversion price of the outstanding Convertible Bonds will be required to be adjusted under the terms of the instrument of the Convertible Bonds.

6. The above shareholding table is prepared assuming no conversion of the Convertible Bonds and no exercise of the Share Options.

Following Completion, the Repurchase Shares will be cancelled by the Company and GORE will cease to hold any securities in the Company. Not less than 25% of the issued Shares will remain in public hands following Completion.

GORE'S RELATIONSHIP WITH THE COMPANY AND SHOUGANG

As at the Latest Practicable Date, Shougang, the Company and GORE, being co-shareholders of Xin Shougang, were respectively holding 80.82%, 12.21% and 6.97% of equity interest in Xin Shougang. The Company had come to acquire its interest in Xin Shougang from GORE through Shougang in 2006. The Acquisition was completed in 2007. The principal business activity of GORE is investment holding.

The substantial fall in prices of iron and other metals in 2008 and 2009 as a result of the global financial tsunami, coupled with the fact that the quality of the mines is lower than expected, has caused the increase of mining costs of Xin Shougang. In view of the uncertain development of Xin Shougang, the Company had approached Shougang to request the latter to acquire the Company's stake in Xin Shougang on substantially the same terms as those in the Acquisition, so as to enable the Company to return to status quo before the Acquisition (which should therefore involve cancellation of the 2,802,235,294 Preferred Shares issued and retrieval of cash consideration paid by the Group for the Acquisition). As Shougang is not the holder of the Preferred Shares, Shougang agreed to approach GORE with a view to enabling the Company to repurchase and cancel the aforesaid Preferred Shares. Shougang and GORE, as business partners of Yichang Shoukong, taking note of Xin Shougang's current operating status, which lags behind the original business plan agreed among the three parties, have come to agree to facilitate the Company's intention to withdraw its investment from Xin Shougang such that each of Shougang, GORE and the Company could continue with its business development based on its own merits.

GORE confirms that its agreement to transfer the Repurchase Shares back to the Company for cancellation at no consideration is based on friendly negotiations between the three parties, having taken into consideration the present operation condition and business prospects of each party concerned (including Xin Shougang) and is a commercial decision. In GORE's perspective, it had received all the cash consideration from the Acquisition and the relevant dividends on the Repurchase Shares. In view of the above, after the liaison through Shougang, GORE agrees to voluntarily give up the Repurchase Shares at no consideration for cancellation by the Company.

In respect of the transfer of the Repurchase Shares by GORE to the Company at no consideration for cancellation, save for the terms as provided in the Agreement and as disclosed above, (i) each of Shougang, GORE and Yichang Shoukong confirms that there are no other arrangements or agreements between them (including their respective group companies); and (ii) GORE confirms that it has not and will not receive any benefits/compensation payment from any party or enter into any arrangements with any party.

DECREASE IN AUTHORISED SHARE CAPITAL

As at the date of this circular, the authorised share capital of the Company is HK$125,000,000 divided into 9,600,000,000 Shares of HK$0.0125 each and 4,000,000,000 Preferred Shares of HK$0.00125 each. As a result of the Share Repurchase, all the Preferred Shares in issue will be cancelled. In order to extinguish the Preferred Share class from the authorised share capital of the Company, the Board proposed to diminish the authorised share capital of the Company from HK$125,000,000 to HK$120,000,000 by the cancellation of 4,000,000,000 Preferred Shares of HK$0.00125 each in the authorised share capital of the Company. As a result, the authorised share capital of the Company will become HK$120,000,000 divided into 9,600,000,000 Shares of HK$0.0125 each. The decrease in authorised share capital is subject to the completion of the Transactions and the passing of an ordinary resolution by the Shareholders by way of poll at the EGM.

FINANCIAL AND TRADING PROSPECT OF THE REMAINING GROUP

For the year ended 31 December 2009, the Group recorded a turnover of approximately HK$38,712,000, which represented a decrease of 47% when compared with last year's turnover of approximately HK$72,770,000. The decrease in sale was mainly due to the decrease in sale of composite materials which contributed for over 73% of total turnover for the year ended 31 December 2008. Such a decrease was mainly due to the unfavourable economic conditions and also the shifting of the Group's resources to the manufacture and sale of PE Pipes and FRP Pipes.

For the financial year ended 31 December 2009, the audited loss before income tax was approximately HK$868,389,000 while audited loss before income tax for the financial year ended 31 December 2008 was approximately HK$1,362,233,000. The loss attributable to owners of the Company was approximately HK$864,145,000 and HK$1,243,920,000 for the financial year ended 31 December 2009 and 31 December 2008 respectively. The significant losses in 2009 and 2008 were mainly attributable to the significant impairment loss on the Group's investments in Xin Shougang. Upon the completion of the Disposal, no future impairment loss from the Sale Interest is expected to hit the Group.

Turnover was approximately HK$38,156,000 for the three months ended 31 March 2010, which represented an increase of 566% when compared with approximately HK$5,730,000 for the three months ended 31 March 2009. The increase in sale was mainly due to strong rebound of the global economy since 2009. The unaudited loss before income tax for the three months ended 31 March 2010 was approximately HK$13,452,000 while the unaudited loss before income tax for the three months ended 31 March 2009 was approximately HK$22,502,000. The loss attributable to owners of the Company was approximately HK$10,181,000 (three months ended 31 March 2009: loss of approximately HK$20,824,000). The improvement in loss for the three months ended 31 March 2010 was mainly attributable to the significant increase in turnover during the three months ended 31 March 2010.

Upon disposal of the Sale Interest, the mining business in Mongolia will be the only mining business remained in the Group. The management will carefully monitor the mining business for the benefit of the Company. In the current economic environment, the Board will continue to adopt stringent cost control and maintain a low and effective overheads structure and prudently utilise the Group's corporate resources to create value for Shareholders. The Group may consider disposal of such Mongolian mining business to steamline the operation of the Group and to enhance its financial positions should suitable opportunities arise.

Upon the successful disposal of the Sale Interest, the Group will be less diversified and can concentrate all the resources to continue the operation of the core business of manufacturing and trading of PE Pipes and FRP Pipes. This business segment has been the core business of the Group for many years and is entirely controlled and managed by the Company. The Directors believe that with the concentration of resources and existing client base, the Group can achieve better result through this business segment and improve Shareholders' return.

REGULATORY REQUIREMENTS

GEM Listing Rules

The Disposal constitutes a very substantial disposal for the Company under the GEM Listing Rules. As the Disposal is conditional on the Share Repurchase, the Disposal is subject to the approval by the Disinterested Shareholders by way of poll at the EGM.

Repurchase Code

The Share Repurchase constitutes an off-market share repurchase by the Company under the Repurchase Code. The Company has made an application to the Executive for approval of the Share Repurchase pursuant to Rule 2 of the Repurchase Code. The Executive's approval, if granted, will normally be conditional upon, among other things, approval of the Share Repurchase by at least three-fourths of the votes cast on a poll by the Disinterested Shareholders present in person or by proxy at the EGM.

Completion of the Agreement is subject to the condition that the Share Repurchase having been approved by the Executive, which cannot be waived by any party to the Agreement. Therefore, the Company will not proceed to Completion unless the Executive approves the Share Repurchase pursuant to Rule 2 of the Repurchase Code. However, there is no assurance that such approval will be granted or that all other conditions precedent to the Agreement will be fulfilled or waived (as the case may be).

Voting

By reason of the requirements of the Repurchase Code and the GEM Listing Rules described above, all parties who have interests in the Agreement which are different from the interests of all other Shareholders are required to abstain from voting in respect of the necessary resolution to be proposed at the EGM concerning the Agreement. Accordingly, Shougang and GORE, its respective associates and parties acting in concert with any of them, will abstain from voting in respect of the resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, Shougang and parties acting in concert with it did not hold any Shares or securities of the Company. Save for the Preferred Shares, GORE and parties acting in concert with it did not hold any Shares or securities of the Company as at the Latest Practicable Date. Save for disclosed above, there are no other persons who have interests in the Agreement which are different from the interests of all other Shareholders and held any Shares of the Company as at the Latest Practicable Date.

EXTRAORDINARY GENERAL MEETING

A notice of the EGM is set out on pages 183 to 186 of this circular.

A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

All the resolutions proposed to be approved at the EGM will be taken by poll and an announcement will be made by the Company after the EGM on the results of the EGM.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee has been established to consider the Transactions and give recommendation to the Disinterested Shareholders as to how to vote on the resolution in relation to the Transactions to be proposed at the EGM. Vinco Capital has been appointed to advise the Independent Board Committee and the Disinterested Shareholders in this regard.

RECOMMENDATION

The Directors are of the opinion that the Transactions and the decrease in authorised share capital of the Company are in the best interests of the Company and the Shareholders and recommend all Shareholders to vote in favour of all the resolutions in respect of the Agreement and the transactions contemplated thereunder and the decrease in authorised share capital to be proposed at the EGM.

The Independent Board Committee, having taken into account the advice of Vinco Capital, the text of which is set out on pages 24 to 37 of this circular, considers that the terms of the Agreement (including the Share Repurchase) are fair and reasonable so far as the Disinterested Shareholders are concerned and the Transactions are in the interest of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Disinterested Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder. The full text of the letter from the Independent Board Committee is set out on page 23 of this circular.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee, the letter from Vinco Capital, and the additional information set out in the appendices to this circular.

On behalf of the board of
China Primary Resources Holdings Limited

MA Zheng
Chairman

PRIMARY RESOURCES

中國基礎資源控股有限公司
CHINA PRIMARY RESOURCES HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8117)

8 June 2010

To the Disinterested Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL INVOLVING OFF-MARKET REPURCHASE OF PREFERRED SHARES

We refer to the circular of the Company dated 8 June 2010 (the "Circular") to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

We have been appointed by the Board as members of the Independent Board Committee and to advise the Disinterested Shareholders as to whether the terms of the Agreement (including the Share Repurchase) are fair and reasonable so far as the Disinterested Shareholders are concerned and whether the Transactions are in the interests of the Company and its Shareholders as a whole. Details of which are set out in the letter from the Board contained in the Circular.

Vinco Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Disinterested Shareholders regarding the fairness and reasonableness of the Agreement (including the Share Repurchase). Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 24 to 37 of the Circular.

Having considered the advice of Vinco Capital set out on pages 24 to 37 of the Circular, we are of the opinion that the terms of the Agreement (including the Share Repurchase) are on normal commercial terms and are fair and reasonable so far as the Disinterested Shareholders are concerned and that the Transactions are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Disinterested Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee
China Primary Resources Holdings Limited

Mr. WAN Tze Fan Terence	**Mr. LIU Weichang**	**Mr. CHUNG Chin Keung**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

The following is the text of a letter of advice from Vinco Capital to the Independent Board Committee and the Disinterested Shareholders in connection with the terms of the Agreement (including Share Repurchase) which has been prepared for the purpose of incorporation in this circular:

VINCO 城高

Grand Vinco Capital Limited
Units 4909-4910, 49/F., The Center
99 Queen's Road Central, Hong Kong

8 June 2010

To the Independent Board Committee and the Disinterested Shareholders of
China Primary Resources Holdings Limited

Dear Sirs,

VERY SUBSTANTIAL DISPOSAL
INVOLVING OFF-MARKET REPURCHASE OF PREFERRED SHARES

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Disinterested Shareholders in connection with the terms of the Agreement (including Share Repurchase), details of which are set out in the section headed "Letter from the Board" in the circular issued by the Company to the Shareholders dated 8 June 2010 (the "**Circular**") of which this letter forms part. Capitalized terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

On 9 April 2010 (after trading hours of the Stock Exchange), Yichang Shoukong, a wholly-owned subsidiary of the Company, entered into the Agreement with Shougang whereby Yichang Shoukong has conditionally agreed to sell and Shougang has conditionally agreed to purchase, the Sale Interest (representing approximately 12.21% equity interest in the registered paid up capital of Xin Shougang) at an aggregate consideration of HK$314.8 million. The consideration shall be satisfied as to HK$25.34 million in cash (or RMB22.28 million as agreed between the parties to the Agreement) and as to HK$289.46 million by way of procuring GORE to transfer to the Company the Repurchase Shares for repurchase and cancellation (subject to the terms and upon fulfillment of the conditions of the Agreement). Upon Completion, the Repurchase Shares will be cancelled by the Company and GORE will cease to hold any securities in the Company.

The Disposal constitutes a very substantial disposal for the Company under the GEM Listing Rules. As the Disposal is conditional on the Share Repurchase, the Disposal is subject to the approval by the Disinterested Shareholders by way of poll at the EGM. As at the Latest Practicable Date, Shougang, its associates and parties acting in concert with it, did not hold any Shares or securities of the Company. Save for the Preferred Shares, GORE, its associates and parties acting in concert with it, did not hold any Shares or securities of the Company as at the Latest Practicable Date. To the best of the knowledge of the Directors having made all enquiries, save for disclosed above, there are no other persons who are interested in the Agreement and held any Shares as at the Latest Practicable Date. Accordingly, Shougang and GORE, their respective associates and parties acting in concert with any of them, will abstain from voting in respect of the resolutions to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder.

The Share Repurchase also constitutes an off-market share repurchase by the Company under the Repurchase Code. The Company has made an application to the Executive for approval of the Share Repurchase pursuant to Rule 2 of the Repurchase Code. The Executive's approval of the Share Repurchase, if granted, is conditional upon, among others, approval of the Share Repurchase by at least three-fourths of the votes cast on a poll by the Disinterested Shareholders in attendance in person or by proxy at the EGM.

The Independent Board Committee, comprising Mr. Wan Tze Fan Terence, Mr. Liu Weichang and Mr. Chung Chin Keung, all being the independent non-executive Directors, has been formed to advise the Disinterested Shareholders on the terms of the Agreement (including Share Repurchase). We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Disinterested Shareholders in respect of the terms of the Agreement (including Share Repurchase). In our capacity as the independent financial adviser to the Independent Board Committee and the Disinterested Shareholders for the purposes of the GEM Listing Rules, our role is to give you an independent opinion as to whether the terms of the Agreement (including Share Repurchase) are on normal commercial terms, in the ordinary course of business, fair and reasonable and in the interests of the Company and the Disinterested Shareholders as a whole.

BASIS OF OUR OPINION AND RECOMMENDATION

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Transactions, as referred to in Rule 17.92 of the GEM Listing Rules (including the notes thereto).

This letter is issued for the information for the Independent Board Committee and the Disinterested Shareholders solely in connection with their consideration of the terms of the Agreement (including Share Repurchase) and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and the Disinterested Shareholders in relation to the terms of the Agreement (including Share Repurchase), we have taken into consideration the following principal factors and reasons:

Background of and reasons for the Transactions

On 9 April 2010 (after trading hours of the Stock Exchange), Yichang Shoukong, a wholly-owned subsidiary of the Company, entered into the Agreement with Shougang whereby Yichang Shoukong has conditionally agreed to sell and Shougang has conditionally agreed to purchase, the Sale Interest at an aggregate consideration of HK$314.8 million. Upon Completion, the Repurchase Shares will be cancelled by the Company and GORE will cease to hold any securities in the Company.

The Group

As referred to the Letter from the Board, the Group is currently principally engaged in (i) manufacture and sale of polyethylene pipes ("**PE Pipes**") and fibre glass reinforced plastic pipes ("**FRP Pipes**"); (ii) sale of composite materials; and (iii) mining business that operates primarily in the markets of the independent sovereign state of Mongolia and the PRC which is operated through its available-for-sale investments.

Set out below is a summary of the audited consolidated financial results of the Group for the two years ended 31 December 2008 and 2009, as extracted from the Company's annual report 2009 (the "**AR 2009**"):

Consolidated Income Statement	**For the year ended 31 December**	
	2009	**2008**
	HK$'000	*HK$'000*
Turnover	38,712	72,770
Loss attributable to equity holders of the Company	864,145	1,243,920

Consolidated Statement of Financial Position	As at 31 December	
	2009	2008
	HK$'000	*HK$'000*
Total assets	886,049	1,678,232
Total liabilities	477,866	495,128
Net assets attributable to equity holders of the Company	374,926	1,144,763
Cash and cash equivalents	76,071	99,361

As set out in the AR 2009, we noted that the Group's turnover for the year ended 31 December 2009 was amounted to approximately HK$38,712,000, representing a decrease of approximately 46.8% as compared to year 2008. With reference to the AR 2009, the decrease in turnover was mainly due to the decrease in sale of composite materials which contributed for over 73% of the Group's total turnover in the previous year. Such a decrease was resulted from the unfavourable economic conditions and also the shifting of the Group's resources to manufacture and sales of PE and FRP Pipes. During the year ended 31 December 2009, the Group also recorded loss attributable to equity holders of the Company of approximately HK$864,145,000. As at 31 December 2009, the Group recorded total assets, total liabilities and net assets attributable to equity holders of the Company of approximately HK$886,049,000 (2008: approximately HK$1,678,232,000), HK$477,866,000 (2008: approximately HK$495,128,000) and HK$374,926,000 (2008: approximately HK$1,144,763,000) respectively. In addition, as at 31 December 2009, the Group's cash and cash equivalents was amounted to approximately HK$76,071,000 (2008: approximately HK$99,361,000). In addition, we also noted that the Group recorded nil segment revenue from mining operations and the said segment has been reporting losses of approximately HK$243,485,000 and HK$8,275,000 for the two financial years ended 31 December 2008 and 2009, representing approximately 52.9% and 99.2% of the Group's aggregate consolidated segment losses respectively.

Xin Shougang Group

Xin Shougang is a company incorporated in the PRC with limited liability on 18 October 2005. It is principally engaged in the mine resources development, asset management and provision of investment management consultancy services in Yichang City, Hubei Province, the PRC. As at the Latest Practicable Date, Xin Shougang was owned as to 80.82% by Shougang, 12.21% by Yichang Shoukong and 6.97% by GORE Mining Technology. Upon Completion, the Company will cease to have any interest in the registered paid up capital of Xin Shougang.

Set out below is a summary of the unaudited combined financial information of the Xin Shougang Group for the two financial years ended 31 December 2008 and 2009 as prepared under HKFRS:

	For the year ended 31 December	
	2009	2008
	RMB million	*RMB million*
	(unaudited)	(unaudited)
Loss before taxation	2,061	4,588
Loss after taxation	2,061	4,588

	As at 31 December	
	2009	2008
	RMB million	*RMB million*
	(unaudited)	(unaudited)
Net assets	2,459	4,415
Total assets	2,590	4,613

As illustrated in the above table, we noted that the Xin Shougang Group has been operating at losses for the past two financial years ended 31 December 2008 and 2009. Based on the unaudited accounts of the Xin Shougang Group prepared according to HKFRS, the net assets value of the Xin Shougang Group as at 31 December 2009 was approximately RMB2,459,000,000.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, we are given to understand that the Xin Shougang Group has not yet commenced mining of any Mining Sites since completion of the Acquisition. As further stated in the Letter from the Board, as at the Latest Practicable Date, the principal assets of Xin Shougang were 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 City, Hubei Province, the PRC and the entire interest in Chang Yang Mining which is engaged in mining business. However, due to the delay in development of the certain mining sites by the Xin Shougang Group, Xin Shougang has been formally informed by the Yichang City Government that the mining rights for the mining sites with mineral resources other than iron, which include silver vanadium and manganese at or near Yichang City, Hubei Province, the PRC, would not be granted to Xin Shougang.

Iron and steel industry

According to the statistics published by the China Steel and Iron Association, we noted that the 2009 average consolidate price index for domestic steel products in China was approximately 103.12, indicating a drop of approximately 24.5%, among which (i) the annual average price index for long products was 107.11 with recorded decrease of approximately 23.4% when compared to previous year; and (ii) the annual average price index for steel plates was approximately 103.05 with recorded decrease of approximately 23.4% when compared to previous year. We also noted volatility in the steel prices in 2009 with the largest difference recorded in consolidated price index for domestic steel products in China was 59.49 (representing a significant decrease of approximately 36.8% as compared to previous year). Also, we noted that from the statistics available from the World Steel Association, we noted that the crude steel production in 2009 dropped by approximately 8.2% as compared with previous year. Further to our discussion with the Directors, we are given to understand that the global economy is still in the process of recovery and the prospects of the iron and steel industry is subject to many uncertainties. It is expected that the continuous disequilibrium between the demand and supply in the world iron and steel market and the mounting pressure upon steel production costs may result in fluctuating prices for iron and steel and increase uncertainties for the Group to operate and further develop in Xin Shougang.

Reasons for the entering into of the Agreement

As stated in the Letter from the Board and as per our discussion with the Directors, the Directors advised us, to which we concur, that the reasons for the entering into of the Agreement is that it will result in the following benefits to the Group:

(i) the Group's financial position may continue to be undermined by the impairment on the Sale Interest and the weak financial performance of the Xin Shougang Group for the past two financial years;

(ii) the Group have no significant influence on the business development and operation of the Xin Shougang Group since Acquisition and its interest in the Xin Shougang Group may be further diluted without new capital contribution by the Group;

(iii) the Directors consider that the Disposal will be a prudent and commercially sound decision which enables the Company to minimize further damages that the Sale Interest may cause to the Group; and

(iv) the Disposal would strengthen the working capital of the Group given the immediate cash inflow in the amount of HK$25.3 million to be received upon Completion which recoup the Group's initial acquisition costs in Xin Shougang (i.e. HK$18 million cash and 2,802,235,294 Repurchase Shares) and receive additional HK7.3 million cash.

Having considered that (i) the prospects and development for the Xin Shougang Group are uncertain in the near future given the volatility of commodity prices and the economic environment; (ii) the Xin Shougang Group has not yet commenced mining of any Mining Sites since completion of the Acquisition and is still at the preliminary stage of development; and (iii) Xin Shougang has been formally informed by the Yichang City Government that the mining rights for the Mining Sites with mineral resources other than iron, which include silver vanadium and manganese at or near Yichang City, Hubei Province, the PRC, will not be granted to Xin Shougang, we concur with the Directors that it may not be justifiable for the Group to continue to retain its interest in Xin Shougang.

In addition, we noted that the Group recorded cash and cash equivalents of approximately HK$76,071,000 as at 31 December 2009. Given that the Company intends to apply the net proceeds from of approximately HK$22.3 million to be received as part of the cash portion of the Consideration from the Disposal for general working capital purposes, we consider that the Disposal is in line with the business strategy of the Group and is conducted in the ordinary and usual course of business of the Group.

In this regard, we concur with the Directors that the Transactions are reasonable moves for the Group to concentrate its resources and grasp business opportunities to further develop and expand its existing business as and when they arise. Accordingly, we are of the view that the Transactions are in the interests of the Company and the Disinterested Shareholders as a whole.

Principal terms of the Agreement

The consideration for the Sale Interest, being HK$314,800,000 (the "**Consideration**"), shall be payable by Shougang (i) as to HK$25,340,000 (or RMB22,280,000 as agreed between the parties to the Agreement) in cash; and (ii) as to HK$289,460,000 by Shougang procuring GORE to transfer to the Company the Repurchase Shares for repurchase and cancellation subject to the terms and upon fulfillment of the conditions of the Agreement.

Basis of the Consideration

As stated in the Letter from the Board, the Consideration was determined based on normal commercial terms after arm's length negotiations between the Group and Shougang and with reference to (i) the form of consideration paid by the Group when the Group first acquired the then 22.28% interest in Xin Shougang in 2007; (ii) the carrying value of the Sale Interest of approximately HK$314.8 million (which was valued by Greater China, an independent qualified valuer engaged by the Company) as at 31 December 2009; (iii) the past performance of the Xin Shougang Group in the preceding years; and (iv) the latest development of the Xin Shougang Group. In this regard, we have reviewed the Acquisition Agreement, the valuation report relating to the valuation of the Sale Interest and the unaudited accounts of the Xin Shougang Group for the two financial years ended 31 December 2008 and 2009. Also, we have discussed with the Directors regarding the latest development of the Xin Shougang Group.

With reference to the Acquisition Agreement, Yichang Shoukong has conditionally agreed to acquire from GORE Mining Technology, a wholly-owned subsidiary of GORE, its then 22.28% interest in the registered paid up capital of Xin Shougang for an aggregate consideration of approximately HK$971 million and such consideration was settled by way of cash and the issue of Preferred Shares. As such, we are of the view that both considerations are settled by ways of cash and Preferred Shares.

Further to our review on the unaudited accounts of the Xin Shougang Group for the two financial years ended 31 December 2008 and 2009, we noted that the Xin Shougang Group was operating at losses for the two financial years ended 31 December 2008 and 2009 with significant drop of approximately 55.1% to HK$2,061 million for the year ended 31 December 2009.

In addition, as stated in the Letter from the Board, we noted that the global economic downturn and the fluctuations in the commodity market during 2008 and 2009 resulted in significant impairment loss in the carrying value of Xin Shougang and had adversely affected and ultimately delayed the progress of the mining operations of Xin Shougang. Meanwhile, injection of additional capital into Xin Shougang by Shougang in April 2009 with its aim to provide working capital to Xin Shougang given the delay in operation of the mining business further diluted the Group's interest in Xin Shougang from approximately 22.28% to 12.21% and the Group's interest has been accounted for as an available-for-sale investment since after. As advised by the Directors, we are given to understand that there has not been much development in the Xin Shougang Group except for the recent construction of a processing plant in Yichang and the Xin Shougang Group has not commenced mining of any Mining Sites since completion of the Acquisition. Due to the delay in development of the certain mining sites by the Xin Shougang Group, Xin Shougang has been formally informed by the Yichang City Government that the mining rights for the Mining Sites with mineral resources other than iron, which include silver vanadium and manganese at or near Yichang City, Hubei Province, the PRC, will not be granted to Xin Shougang.

In view of the aforesaid and the Consideration is the same as the carrying value of the Sale Interest as at 31 December 2009, we are of the view that the Consideration is fair and reasonable so far as the Company and the Disinterested Shareholders are concerned.

Payment of the Consideration

Pursuant to the Agreement, the aggregate Consideration of HK$314,800,000 shall be satisfied by Shougang as follows:

(a) as to HK$25,340,000 (or RMB22,280,000 as agreed between the parties to the Agreement) (the "**Deposit**") has been paid in cash within 30 days from the date of the Agreement; and

(b) as to HK$289,460,000 by Shougang procuring GORE to transfer to the Company the Repurchase Shares for cancellation at a price of approximately HK$0.1033 per Repurchase Share at Completion.

The Repurchase Shares

As at the Latest Practicable Date, the Company has an aggregate of 2,802,235,294 Preferred Shares in issue which are beneficially held by GORE. Upon full conversation of the Repurchase Shares at the prevailing conversion rate, a total of 359,396,454 Conversion Shares will be issued, representing approximately 29.2% of the issued share capital of the Company as at the Latest Practicable Date and approximately 22.6% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares. Upon Completion, the Repurchase Shares will be transferred to the Company for cancellation at the consideration of HK$289,460,000, representing a price of approximately HK$0.1033 per Repurchase Share or a price of approximately HK$0.8054 per Conversion Share.

The Repurchase Price

The price of approximately HK$0.8054 per Conversion Share represents:

(i) a premium of approximately 576.8% over the closing price of HK$0.119 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;

(ii) a premium of approximately 304.7% over the closing price of HK$0.199 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a premium of approximately 316.9% over the average of the closing prices of HK$0.1932 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to and including the Last Trading Day;

(iv) a premium of approximately 320.4% over the average of the closing prices of HK$0.1916 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to and including the Last Trading Day; and

(v) a premium of approximately 164.2% over the audited net assets value per Share attributable to Shareholders as at 31 December 2009 of approximately HK$0.3049 (based on the audited net assets attributable to the equity holders of the Company of approximately HK$374,926,000 as set out in the AR 2009 for the year ended 31 December 2009 and 1,229,603,280 Shares then in issue).

The Repurchase Price was determined between Yichang Shoukong and Shougang after arm's length negotiations with reference to (i) the removal of the possible dilution effect on the Shareholders from conversion of the Repurchase Shares into Conversion Shares; (ii) the reduction of the financial liability component and deferred tax liabilities in relation to the Repurchase Shares by an amount of approximately HK$50,992,000 and HK$148,792,000 as at 31 December 2009 respectively from the accounts of the Company as a result of the cancellation; and (iii) the carrying value of the equity component of the Repurchase Shares of approximately HK$753,639,000 as at 31 December 2009.

Analysis on the Repurchase Price

We noted that a total of 359,396,454 Conversion Shares will be issued upon full conversation of the Repurchase Shares at the prevailing conversion rate and it represents approximately 29.2% of the issued share capital of the Company as at the Latest Practicable Date and approximately 22.6% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares. Accordingly, the shareholding interests of the other public Shareholders would be diluted from approximately 64.5% as at the Latest Practicable Date to approximately 50.0% upon full conversion of the Repurchase Shares, representing a potential maximum dilution of approximately 14.5%. Accordingly, such potential dilution may harm the shareholding interests of the existing public Shareholders.

In addition, we also reviewed the AR 2009 and noted that the Repurchase Shares are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. As set out in AR 2009, the carrying values of the liability component and equity component of Repurchase Shares were approximately HK$50,992,000 and HK$753,639,000 as at 31 December 2009 respectively. As stated in the Letter from the Board, the Company will measure the Repurchase Shares at the prevailing fair share on the date of Completion based on the indicative valuation to be performed by professional valuers and allocate the fair value into financial liability component at fair value and equity component at the residual value and state these components through profit or loss and retained earnings respectively.

As advised by the Directors, for illustration purposes only, the gain on the Share Repurchase of HK$4,288,000 as at 9 April 2010 was calculated based on the difference between the carrying value of the financial liability component of the Repurchase Share of HK$50,992,000 and the fair value of the financial liability component of HK$46,704,000 on the date of Completion. The estimated difference of HK$685,366,000 between the carrying value and fair value of the equity component of the Repurchase Shares and the release of deferred tax liabilities attributable to the Repurchase Shares of HK$148,792,000 will be recorded as transfers to the Group's accumulated losses. In this regard, we are given to understand that the cancellation of Repurchase Shares would result in decrease in the financial liability component and the deferred liabilities of approximately HK$50,992,000 and HK$148,792,000 as at 31 December 2009 respectively from the accounts of the Company.

In accessing the fairness and reasonableness of the Repurchase Price, we have also reviewed the historical liquidity of the Shares for the six months prior and including up to the Last Trading Day (the "**Review Period**"). Set out below is the historical liquidity of the Shares during the Review Period:

	Average daily trading volume for the month/period	**Percentage of the average daily trading volume to the number of the issued Shares as at the Latest Practicable Date**
	No. of Shares	*Approximate %*
2009		
9 October to 30 October	1,365,252	0.11
November	1,382,438	0.11
December	2,039,042	0.17
2010		
January	2,955,785	0.24
February	669,137	0.05
March	1,581,623	0.13
April (up to the Last Trading Day)	1,863,375	0.15

Source: website of the Stock Exchange (www.hkex.com.hk)

As illustrated in the above table, we noted that the liquidity of the Shares was extremely thin during the Review Period. During the Review Period, the percentage of the average daily trading volume to the number of the issued Shares as at the Latest Practicable Date ranged from approximately 0.05% to 0.24%. Assuming that upon full conversion of the Repurchase Shares, we understand that, given the extremely thin liquidity of the Shares, it may be difficult for the Company to repurchase a large number of Shares through on-market repurchases as Share Repurchase.

We noted that the Repurchase Price represents premium over (i) the Latest Practicable Date; (ii) the closing price on the Last Trading Day; (iii) the average closing price for the last five consecutive days prior to and including the Last Trading Day; (iv) the average closing price for the last ten consecutive days prior to and including the Last Trading Day; and (v) the audited net assets value per Share attributable to Shareholders as at 31 December 2009. However, having considered that (i) the Repurchase Price was determined after arm's length negotiations between parties to the Agreement; (ii) the removal of the potential dilution effect on the Shareholders resulted from conversion of the Repurchase Shares so as to protect the interests of the Group's existing Shareholders; (iii) the difficulty for the Company to repurchase the Shares (upon full conversion of the Repurchase Shares) through on-market repurchase given the thin liquidity of the Shares during the Review Period; (iv) the Share Repurchase is used as settlement for part of the Consideration which will avoid further depletion of the Company's existing cash resources and preserve cash availability and flexibility for the future operations of the Company; (v) the cancellation of Repurchase Shares would result in improvement in the gearing level of the Group; and (vi) in the event that the Company failed to dispose the Xin Shougang, the Company's financial position may continue to be undermined by the impairment on the Sale Interest and the weak financial performance of the Xin Shougang for the past two financial years ended 31 December 2009, we consider that, on balance, the Repurchase Price is fair and reasonable so far as the Company and the Disinterested Shareholders are concerned and is in the interests of the Company and the Disinterested Shareholders as a whole.

Refund of deposit

In any event that the non-fulfillment of any of the conditions precedent is due to the fault of Shougang, Yichang Shoukong shall be entitled to forfeit the Deposit as compensation. On the other hand, if any event that the non-fulfillment of any of the conditions precedent is due to the reasons other than the fault of Shougang, Yichang Shoukong shall within five Business Days refund the Deposit (without interest) to Shougang as full and final settlement of all claims in connection with the Agreement whatsoever.

Other terms of the Agreement

We have also reviewed the other terms of the Agreement and are not aware of any terms which are uncommon.

In view of the foregoing analysis, we consider that the principal terms of the Agreement and the Share Repurchase are on normal commercial terms and are fair and reasonable and in the interests of the Company and Disinterested Shareholders as a whole.

Effects on the shareholding structure of the Company

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date; and, for illustrative purpose, assuming no further Shares will be issued or repurchased by the Company after the Latest Practicable Date and up to the date of the EGM, the potential dilution effect on the shareholdings of the Shareholders (i) upon full conversion of the Repurchase Shares; and (ii) upon cancellation of the Repurchase Shares:

Shareholders	**As at the Latest Practicable Date**		**Upon full conversion of the Repurchase Shares**		**Upon cancellation of the Repurchase Shares**	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
Future Advance *(Note 1)*	287,619,446	23.4	287,619,446	18.1	287,619,446	23.4
Mr. Yu Hongzhi *(Note 1)*	11,400,000	0.9	11,400,000	0.7	11,400,000	0.9
Ms. Ma Zheng *(Note 2)*	8,100,000	0.7	8,100,000	0.5	8,100,000	0.7
Super Grand Investments Limited *(Note 3)*	129,436,878	10.5	129,436,878	8.1	129,436,878	10.5
GORE *(Note 4)*	–	–	359,396,454	22.6	–	–
Other public Shareholders	793,046,956	64.5	793,046,956	50.0	793,046,956	64.5
Total	**1,229,603,280**	**100.0**	**1,588,999,734**	**100.0**	**1,229,603,280**	**100.0**

Notes:

(1) Future Advance is a limited liability company incorporated in the British Virgin Islands. Future Advance is beneficially owned as to 37.5% by China Zong Heng Holdings Limited (which is in turn 100% beneficially owned by Mr. Yu Hongzhi), 12.5% by Ms. Ma Zheng who is the sole director of Future Advance, 27% by Zhong Nan Mining Group Limited (which is in turn 100% beneficially owned by Mr. Zhang Lei), 13% by Mr. Wu Yong Jin and the remaining 10% by Ms. Ma Yi.

(2) Ms. Ma Zheng is the sole director of Future Advance and an executive Director.

(3) Super Grand Investments Limited is a wholly-owned subsidiary of APAC Resources Limited, the issued shares of which are listed on the main board of the Stock Exchange.

(4) As at the Latest Practicable Date, GORE, a company incorporated in the British Virgin Islands with limited liability, held the 2,802,235,294 Preferred Shares which entitles GORE to convert into 359,396,454 Shares at the conversion price of HK$2.651 per Share. The Preferred Shares in issue carry conversion right to convert into Shares at the prevailing conversion rate of 1:0.1282 (after adjustment from the initial conversion rate of 1:1 to 1:1.2825 on 16 July 2009 and the further adjustment to 1:0.1282 on 20 August 2009). Details of the prevailing conversion rate and conversion price of the Repurchase Shares are set out in the announcement of the Company dated 20 August 2009.

(5) The above shareholding is prepared assuming no conversion of the Convertible Bonds and no exercise of the Share Options. As at the Latest Practicable Date, there were 73,601,600 outstanding Share Options entitling the holders thereof to subscribe for a total of 73,601,600 new Shares and the Convertible Bonds entitling the holders to convert into 184,733,481 new Shares.

As illustrated in the table above, the shareholding interests of the other public Shareholders would be diluted from approximately 64.5% as at the Latest Practicable Date to approximately 50.0% upon full conversion of the Repurchase Shares, representing a potential maximum dilution of approximately 14.5%. However, in the event that the Repurchase Shares were cancelled by the Company upon Completion, such potential dilution on the Shareholders would be removed. Accordingly, GORE will cease to hold any securities in the Company. In this regard, we are of the view that the removal of the potential dilution effects on the shareholding structure of the Company upon the cancellation of the Repurchase Shares is favourable to the Company.

Possible financial effects of the Transactions

(i) Gain/Loss on the Transactions

As stated in the Letter from the Board, for illustration purposes only, the gain on the Share Repurchase of HK$4,288,000 as at 9 April 2010 was calculated based on the difference between the carrying value of the financial liability component of the Repurchase Share of HK$50,992,000 and the fair value of the financial liability component of HK$46,704,000 as at the date of Completion.

In addition, for illustrative purposes only, the loss on Disposal of HK$25,157,000 was arrived based on (i) the aggregate of the cash consideration of HK$25,340,000 and the fair value of the Repurchase Shares of HK$114,977,000 as at 9 April 2010 (as if this was the date of Completion), less the carrying value of the Sale Interest of HK$314,800,000; and (ii) the release of the Group's exchange reserve related to the Xin Shougang Group of HK$152,326,000, less estimated expenses incurred for the Disposal of HK$3,000,000. Accordingly, the Group is expected to record an aggregate net loss of HK$20,689,000 on the Share Repurchase and Disposal. However, the final gain or loss arising from the Share Repurchase and Disposal will, nevertheless, depend on, the valuation to be performed by professional valuers of the Repurchase Shares on the date of Completion.

In view of the continuous loss making results and uncertain prospects of the Xin Shougang Group in the near future, it is expected that the remaining Group can avoid potential future losses by disposing Xin Shougang.

(ii) Net assets value

According to the AR 2009, the Group recorded audited total assets and total liabilities of approximately HK$886,049,000 and HK$477,866,000 respectively as at 31 December 2009. In addition, the Group recorded net assets of approximately HK$408,183,000 as at 31 December 2009.

Based on the Pro Forma Financial Information, assuming that the Transactions had been taken place as at the relevant balance sheet dates, the unaudited pro forma consolidated total assets and total liabilities of the Group will decrease by approximately 33.0% to approximately HK$593,589,000 and by approximately 41.8% to approximately HK$278,082,000 respectively.

In addition, with reference to the Pro Forma Financial Information, assuming that the Transactions had been taken place as at the relevant balance sheet dates, the unaudited pro forma consolidated net assets of the Group will decrease by approximately 22.7% to approximately HK$315,507,000. Accordingly, the net assets value per Share will decrease from approximately HK$0.33 (based on 1,229,603,280 issued ordinary shares as at 31 December 2009) to approximately HK$0.26 (based on 1,229,603,280 issued ordinary shares as at the Latest Practicable Date) upon Completion.

Taking into account that (i) the reduction of net assets value per Share upon Completion and full conversion of the Repurchase Shares would be minimal; (ii) the fact that the Disposal will alleviate the Group's heavy capital commitment that would otherwise be required for Xin Shougang in the midst of volatility of commodity prices and the economic environment; and (iii) the potential benefits from the Transactions illustrated in the above, we consider that the overall impact on the consolidated net assets of the Group and the net assets value per Share from the Share Repurchase and Disposal to be favourable to the Company and the Disinterested Shareholders as a whole, notwithstanding the decrease in consolidated net assets of the Group upon Completion.

(iii) Working capital

According to the AR 2009, the Group recorded net current liabilities amounted to approximately HK$54,067,000 as at 31 December 2009.

Based on the Pro Forma Financial Information, assuming that the Transactions had been taken place as at the relevant balance sheet dates, it is expected that the Group's working capital would be improved by approximately HK$22,340,000, being the net proceeds from the Disposal.

(iv) Loss per Share

According to the AR 2009, for the year ended 31 December 2009, the Group recorded loss attributable to equity holders of the Company and loss per Share of approximately HK$864,145,000 and HK$0.865 respectively (based on 999,403,579 weighted average number of ordinary shares for the purposes of calculating basic loss per shares for the year ended 31 December 2009).

Based on the Pro Forma Financial Information, assuming that the Transactions had been taken place as at the relevant balance sheet dates, the Group's loss per Share for the year ended 31 December 2009 would be improved from approximately HK$0.865 to approximately HK$0.065 (based on 999,403,579 weighted average number of ordinary shares for the purpose of calculating basic loss per share for the year ended 31 December 2009).

(v) Cash flow

Based on the Pro Forma Financial Information, assuming that the Transactions had been taken place as at the relevant balance sheet dates, the cashflow of the Group is expected to be increased by the amount of approximately HK$22.3 million which are intended to be used as for general working capital of the remaining Group. Accordingly, the Transactions will allow the Group to prevent further injection of working capital in Xin Shougang and concentrate its resources to continue the operation of its existing core business.

In view of the above, we consider that the Transactions, on balance, will have positive financial effects to the Group. Therefore, we consider that the Transactions are in the interests of the Company and the Disinterested Shareholders as a whole.

Our Views

Having taken into consideration that (i) the Consideration and the Repurchase Prices were arrived after arm's length negotiation between the Group and Xin Shougang as mentioned in the above; (ii) the Disposal is merely a disposal of the remaining interest as available-for-sale investments in Xin Shougang and helps the Group to remove the uncertainties resulted from the weak financial performance of the Xin Shougang Group; (iii) the potential benefits from the Transactions as illustrated in the above; (iv) the cancellation of the Repurchase Shares helps to remove the possible dilution effects on the shareholding of the existing public Shareholders; and (v) the potential favourable financial effects on working capital, loss per Share and cashflow to the Group, we thus concur with the Directors that the Transactions are in the interests of the Company and Disinterested Shareholders as a whole.

CONCLUSION

Having taken the above principal factors and reasons, we are of the view that (i) the terms of the Agreement (including Share Repurchase) are on normal commercial terms and are fair and reasonable so far as the Disinterested Shareholders are concerned; and (ii) the Transactions (including Share Repurchase) are in the interests of the Company and Disinterested Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Disinterested Shareholders, and the Disinterested Shareholders, to vote in favour of the resolutions to be proposed at the EGM approving the Agreement (including Share Repurchase).

Yours faithfully,
For and on behalf of
Grand Vinco Capital Limited
Alister Chung
Managing Director

I. FINANCIAL SUMMARY

The following is a summary of the audited consolidated results and assets and liabilities of the Group for the three financial years ended 31 December 2007, 2008 and 2009 respectively and the unaudited consolidated results and assets and liabilities of the Company for the three months ended 31 March 2009 and 2010, as extracted from each of the relevant annual reports and quarterly report of the Company. There had been no qualified opinion issued by Shu Lun Pan Horwath Hong Kong CPA Limited for the two financial years ended 31 December 2007 and 2008, but there had been qualified opinion issued by the BDO Limited on the financial information of the Company for the year ended 31 December 2009. The Company had no exceptional or extraordinary items in existence for each of the three years ended 31 December 2007, 2008 and 2009 and for the three months ended 31 March 2009 and 2010. Save for the dividends paid to the holder of the Preferred Shares as referred to in the section headed "Miscellaneous" in Appendix IV to this circular, no dividends have been paid or declared by the Company during each of the three financial years ended 31 December 2007, 2008 and 2009 and the three months ended 31 March 2009 and 2010.

Results

	Year ended 31 December			Three months ended 31 March	
	2007	**2008**	**2009**	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	31,826	72,770	38,712	5,730	38,156
Other income and gain	1,601	7,524	539	36	30
Operating expenses	(52,917)	(148,920)	(66,870)	(13,095)	(45,203)
Impairment loss on mining rights	–	(230,814)	–	–	–
Impairment loss on available for sale investments	–	–	(805,580)	–	–
Excess of the Group's share of the net fair value of the identifiable net assets of the subsidiaries acquired over the cost of acquisition	–	118,110	–	–	–
Share of profits/(losses) of associated, net	1,139,370	(1,155,573)	(10,282)	(8,729)	–
Finance costs	(4,494)	(25,330)	(24,908)	(6,444)	(6,435)
Profit/(loss) before income tax	1,115,386	(1,362,233)	(868,389)	(22,502)	(13,452)
Income tax credit	272	63,236	2,184	1,108	2,815
Profit/(loss) for the year	1,115,658	(1,298,997)	(866,205)	(21,394)	(10,637)
Profit/(loss) attributable to:					
Owners of the Company	1,115,983	(1,243,920)	(864,145)	(20,824)	(10,181)
Minority interests	(325)	(55,077)	(2,060)	(570)	(456)
	1,115,658	(1,298,997)	(866,205)	(21,394)	(10,637)
Profit/(Loss) Per Share attributable to owners of the Company					
Basis (HK$)	1.318	(1.289)	(0.865)	(0.021)	(0.0083)
Diluted (HK$)	0.805	(1.289)	(0.865)	(0.021)	(0.0083)

Assets and Liabilities

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	2,515,997	1,678,232	886,049
Total liabilities	(431,416)	(495,128)	(477,866)
	2,084,581	1,183,104	408,183

II. AUDITED FINANCIAL REPORT AND INFORMATION

Independent auditors' report

The following is the auditors' report of the Group extracted from pages 33 to 35 of the annual report of the Group for the year ended 31 December 2009. References to page number in this appendix are to the page numbers of such annual report of the Company.

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TO THE SHAREHOLDERS OF CHINA PRIMARY RESOURCES HOLDINGS LIMITED
（中國基礎資源控股有限公司）
(Incorporated in the Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of China Primary Resources Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 119, which comprise the consolidated and Company statements of financial position as at 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

Except for the limitations in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

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

As set out in Note 3(b) to the financial statements, 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 statements 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, 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 statements. 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*

Included in the consolidated statement of financial position as at 31 December 2009 were mining rights with carrying amounts of HK$206,963,000. As set out in Note 17 to the financial statements, 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. However, because of the fundamental uncertainty relating to the going concern of the Group as described in the basis for disclaimer 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 valuation of the mining rights 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 are fairly stated in the consolidated statement of financial position. Any adjustments found to be necessary may have an effect on the Group's net assets as at 31 December 2009 and the Group's results for the year then ended.

Disclaimer of opinion: disclaimer on view given by financial statements

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 statements as to whether they give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2009 and of the results and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants

Shiu Hong NG
Practising Certificate Number: P03752

Hong Kong, 29 March 2010

Audited Financial Statements

Set out below is the audited consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and notes to the financial statements of the Company as extracted from pages 36 to 119 of the annual report of the Company for the year ended 31 December 2009.

Consolidated Income Statement
For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	Notes	2009 HK$'000	2008 HK$'000 (Restated)
Turnover	5	38,712	72,770
Other income and gain	7	539	7,524
Cost of inventories sold		(33,110)	(70,676)
Staff costs, including directors' remuneration	13	(8,280)	(49,435)
Depreciation		(2,451)	(1,770)
Amortisation of mining rights	17	(8,090)	(12,552)
Amortisation of land use rights	16	(698)	(694)
Other operating expenses		(14,241)	(13,793)
Impairment loss on mining rights	17	–	(230,814)
Impairment loss on available-for-sale investments	20	(805,580)	–
Share of losses of associates, net	18	(10,282)	(1,155,573)
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
Finance costs	8	(24,908)	(25,330)
Loss before income tax	9	(868,389)	(1,362,233)
Income tax credit	10(a)	2,184	63,236
Loss for the year		(866,205)	(1,298,997)
Loss attributable to:			
Owners of the Company	11	(864,145)	(1,243,920)
Minority interests		(2,060)	(55,077)
		(866,205)	(1,298,997)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basis and diluted (HK$)	12	(0.865)	(1.289)

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	2009	2008
	HK$'000	*HK$'000*
Loss for the year	(866,205)	(1,298,997)
Other comprehensive income		
Exchange differences on translation of associates	18,106	134,220
Exchange differences on translation	(2,022)	23,573
Other comprehensive income for the year, net of tax	16,084	157,793
Total comprehensive income for the year	(850,121)	(1,141,204)
Total comprehensive income for the year attributable to:		
Owners of the Company	(845,037)	(1,087,964)
Minority interests	(5,084)	(53,240)
	(850,121)	(1,141,204)

Consolidated Statement of Financial Position

As at 31 December 2009

(Expressed in Hong Kong dollars)

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

Statement of Financial Position
As at 31 December 2009
(Expressed in Hong Kong dollars)

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	19	421,246	421,266
Amounts due from subsidiaries	19	515,763	–
		937,009	421,266
Current assets			
Other receivables, deposits and prepayments		150	200
Amounts due from subsidiaries	19	6,500	1,022,063
Cash and cash equivalents	24	20,759	33,740
		27,409	1,056,003
Current liabilities			
Other payables and accruals		1,085	724
Amounts due to subsidiaries	19	157,873	157,910
Convertible bonds	26	241,271	6,228
		400,229	164,862
Net current (liabilities)/assets		(372,820)	891,141
Total assets less current liabilities		564,189	1,312,407
Non-current liabilities			
Convertible bonds	26	–	232,552
Deferred tax liabilities	27	149,613	149,775
Convertible preferred shares	28	50,992	55,756
		200,605	438,083
Net assets		363,584	874,324
EQUITY			
Share capital	29	15,370	10,247
Reserves	31	348,214	864,077
Total equity		363,584	874,324

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

(Expressed in Hong Kong dollars)

	Equity attributable to owners of the Company										
	Share capital HK$'000	Share premium account HK$'000 (Note a)	Convertible bonds reserve HK$'000 (Note 26)	Employee compen-sation reserve HK$'000 (Note 30)	Statutory surplus reserve HK$'000 (Note b)	Convertible preferred shares reserve HK$'000 (Note 28)	Warrants reserve HK$'000 (Note c)	Exchange translation reserve HK$'000 (Note d)	(Accumu-lated losses)/ retained profits HK$'000	Minority interests HK$'000	Total equity HK$'000
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 shares	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 and 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	15,370	365,726	17,922	38,031	5,110	753,639	–	188,018	(1,008,890)	33,257	408,183

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. All warrants lapsed upon expiry on 22 August 2009.

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. All warrants lapsed upon expiry on 17 September 2009.

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

Consolidated Statement of Cash Flows
For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	Notes	2009 HK$'000	2008 HK$'000
Operating activities			
Loss before income tax		(868,389)	(1,362,233)
Adjustments for:			
Depreciation	9	4,618	2,991
Amortisation of land use rights		698	694
Impairment loss of mining rights		–	230,814
Amortisation of mining rights		8,090	12,552
Employee share-based compensation	13	–	43,548
Bank interest income	7	(125)	(2,267)
Interest on convertible bonds	8	19,936	20,184
Imputed interest on convertible preferred shares	8	4,764	4,764
Write-off of property, plant and equipment	9	108	3
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 losses of associates, net		10,282	1,155,573
Operating loss before working capital changes		(14,758)	(11,487)
Increase in inventories		(41,627)	(8,654)
Decrease/(increase) in trade receivables		34,293	(45,081)
(Increase)/decrease in other receivables, deposits and prepayments		(41,705)	814
Decrease/(increase) in trade payables		(666)	3,110
Decrease/(increase) in other payables and accruals		(12,139)	12,295
Effect of foreign exchange differences		(33)	8,804
Cash used in operations		(76,635)	(40,199)
Interest income received		125	2,267
Income taxes paid		–	(301)
Net cash used in operating activities		(76,510)	(38,233)

	Notes	2009 HK$'000	2008 HK$'000
Investing activities			
Deposits paid	21	34,231	(91,462)
Purchases of property, plant and equipment	15	(25,583)	(35,808)
Acquisition of subsidiaries		–	(27,170)
Deregistration of a subsidiary		(3,941)	–
Net cash from/(used in) investing activities		4,707	(154,440)
Financing activities			
Proceeds from issue of right shares, net of share issue expenses		75,200	–
Redemption of convertible bonds		(6,395)	–
Convertible bond interest paid		(11,050)	(7,511)
Convertible preferred shares interest paid		(9,528)	–
Net cash from/(used in) financing activities		48,227	(7,511)
Net decrease in cash and cash equivalents		(23,576)	(200,184)
Cash and cash equivalents at beginning of year		99,361	294,063
Effect of foreign exchange rate changes		286	5,482
Cash and cash equivalents at end of year		76,071	99,361
Analysis of the balances of cash and cash equivalents			
Cash at bank and in hand		76,071	99,361

Notes to the Financial Statements

For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

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 latter is operated through its available-for-sale investments. The activities of the subsidiaries are set out in Note 19 to the financial statements.

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

The Group has adopted the following new/revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for the current accounting period.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 related to the amendment paragraph 80 of HKAS 39
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Interpretation 9 & HKAS 39 (Amendments)	Embedded Derivatives

The adoption of the above new/revised HKFRSs had no material effect on the financial statements of the Group for both the current and prior reporting periods, except for certain presentational change as a result of adopting HKAS 1 (Revised) and other changes as set out below. All relevant changes in accounting policies and disclosures have been made in accordance with the provisions of the respective standards. The statements of financial position at the beginning of the financial year ended 31 December 2008 have not been presented as there were no changes to the originally published statements.

HKFRS 8 supersedes HKAS 14 "Segment Reporting", and requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision-makers in order to allocate resources to the segment and to assess its performance. As the business segments reported by the Group in accordance with the requirements of HKAS 14 are the same as the operating segments provided to chief operating decision-makers as required by HKFRS 8, there are no changes to the operating segments and the results of operating segments on the adoption of HKFRS 8.

The amendments to HKFRS 7 expand the disclosures relating to fair value measurements for financial instruments that are measured at fair value and liquidity risk of financial liabilities. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision.

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 statements 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 statements 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 statements

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

These financial statements have been prepared on a going concern basis notwithstanding that the Group recorded net current liabilities of HK$54,067,000 at the end of reporting period 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 the current year.

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 statements, 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 statements 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 statements 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 statements 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 statements 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 statements, are disclosed in Note 4 to the financial statements.

(c) Basis of consolidation

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

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

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 statements 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 statements 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 statements 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 statements are presented in Hong Kong Dollars ("HKD"), which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at thee 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 HKD 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 statements in respect of other equity-settled share-based payments.

Equity-settled share-based payments transactions with other parties are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Group obtains the goods or the counterparty renders the 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 statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

(a) Going concern

Management makes an assessment of the Group's ability to continue as a going concern when preparing the financial statements. 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 statements.

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 statements.

(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 mining rights and interests in associates are set out in Notes 17 and 18 to the financial statements, respectively. In addition, the Company also assessed the impairment on its investment costs in subsidiaries and amounts due from subsidiaries, details of which are set out in Note 19 to the financial statements.

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

The Group's 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 to the financial statements.

(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:

	2009	**2008**
	HK$'000	*HK$'000*
Sale of PE/FRP pipes	29,780	19,772
Sale of composite materials	8,932	52,998
	38,712	72,770

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 year (2008: HK$Nil). 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 operation		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue from external customers	29,780	19,772	8,932	52,998	–	–	38,712	72,770
Inter-segment revenue	–	–	–	–	–	–	–	–
Reportable segment revenue	29,780	19,772	8,932	52,998	–	–	38,712	72,770
Reportable segment loss	(4,705)	(1,658)	(2,667)	(362)	(8,275)	(243,485)	(15,647)	(245,505)
Reportable segment assets	263,012	151,581	21,945	25,638	207,042	214,057	491,999	391,276
Reportable segment liabilities	(3,647)	(16,705)	–	–	(179)	(215)	(3,826)	(16,920)
Other segment information:								
Share of losses of associates, net	–	–	–	–	(10,282)	(1,155,573)	(10,282)	(1,155,573)
Impairment loss on available-for-sale investments	–	–	–	–	(805,580)	–	(805,580)	–
Interest revenue							125	2,267
Finance costs							(24,908)	(25,330)
Depreciation and impairment losses	3,861	2,902	–	–	4	243,366	3,865	246,268
Unallocated depreciation							753	89
Total depreciation and impairment losses							4,618	246,357
Amortisation of land use rights	698	694	–	–	–	–	698	694
Amortisation of mining rights	–	–	–	–	8,090	12,552	8,090	12,552
Income tax credit	–	–	–	–	(2,022)	(61,120)	(2,022)	(61,120)
Unallocated income tax credit							(162)	(2,116)
Total income tax credit							(2,184)	(63,236)
Additions to non-current assets	25,472	35,507	–	–	–	451,888	25,472	487,395
Unallocated additions to non-current assets							111	219
Total additions to non-current assets							25,583	487,614
Interests in associates	–	–	–	–	–	1,112,008	–	1,112,008
Available-for-sale investments	–	–	–	–	314,800	–	314,800	–

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

	2009 *HK$'000*	2008 *HK$'000*
Loss before income tax expenses		
Reportable segment loss	(15,647)	(245,505)
Other income and gains	539	7,524
Share of losses of associates	(10,282)	(1,155,573)
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	(12,511)	(61,459)
Finance costs	(24,908)	(25,330)
Consolidated loss before income tax	(868,389)	(1,362,233)

	2009 *HK$'000*	2008 *HK$'000*
Assets		
Reportable segment assets	491,999	391,276
Interests in associates	–	1,112,008
Available-for-sale investments	314,800	–
Cash and cash equivalents	76,071	99,361
Unallocated corporate assets	3,134	75,542
Tax recoverable	45	45
Consolidated total assets	886,049	1,678,232

	2009 *HK$'000*	2008 *HK$'000*
Liabilities		
Reportable segment liabilities	(3,826)	(16,920)
Convertible bonds	(241,271)	(238,780)
Deferred tax liabilities	(180,634)	(182,818)
Convertible preferred shares	(50,992)	(55,756)
Unallocated corporate liabilities	(1,143)	(854)
Consolidated total liabilities	(477,866)	(495,128)

(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 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	
	2009 *HK$'000*	2008 *HK$'000*	2009 *HK$'000*	2008 *HK$'000*	2009 *HK$'000*	2008 *HK$'000*
Revenue from external customers	38,712	72,770	–	–	38,712	72,770
Specified non-current assets	484,913	1,229,370	206,963	214,057	691,876	1,443,427
Unallocated non-current assets					2,000	68,385
Total non-current assets					693,876	1,511,812

(d) Information about major customers

The Group's customer base is not diversified and there were two customers with whom transactions have exceeded 10% of the Group's revenues. Revenues from sale of composite materials to these two customers were approximately HK$7,089,000 (2008: HK$20,034,000) and HK$1,840,000 (2008: HK$32,963,000) respectively and revenues from manufacture and sale of PE/FRP pipes to these two customers were approximately HK$3,912,000 (2008: HK$5,440,000) and HK$5,059,000 (2008: HK$13,874,000) respectively.

7. OTHER INCOME AND GAIN

	2009	**2008**
	HK$'000	*HK$'000*
Bank interest income	125	2,267
Compensation from a supplier #	–	5,253
Gain on deregistration of a subsidiary *(Note 32)*	320	–
Sundry income	94	4
	539	7,524

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

8. FINANCE COSTS

	2009	**2008**
	HK$'000	*HK$'000*
Interest expenses on convertible bonds maturing within five years	19,936	20,184
Imputed interest on convertible preferred shares *(Note 28)*	4,764	4,764
Others	208	382
	24,908	25,330

9. LOSS BEFORE INCOME TAX

	2009	**2008**
	HK$'000	*HK$'000*
Loss before income tax is arrived at after charging:		
Auditors' remuneration	680	720
Minimum lease payments under operating lease charges in respect of land and buildings	2,380	2,530
Net foreign exchange losses	–	868
Depreciation *(Note 15)*	4,618	2,991
Write-off of property, plant and equipment	108	3

Note: Depreciation charge of HK$2,167,000 (2008: HK$1,221,000) has been included in cost of inventories sold on the face of the consolidated income statement.

10. INCOME TAX

(a) Taxation in the consolidated income statement represents:

	2009	2008
	HK$'000	*HK$'000*
Group:		
Current – PRC tax	–	301
Deferred taxation *(Note 27)*		
– attributable to the origination and reversal of temporary differences, net	(2,184)	(63,537)
Total tax credit for the year	(2,184)	(63,236)

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

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

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

	2009	2008
	HK$'000	*HK$'000*
Loss before income tax	(868,389)	(1,362,233)
Taxation credit calculated at the statutory PRC tax of 25% (2008: 25%)	(217,097)	(340,558)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(427)	5,335
Tax effect of expenses not deductible for taxation purposes	212,660	284,138
Tax effect of non-taxable items	(15)	(22,078)
Tax effect on unused tax losses not recognised	2,695	9,927
Income tax credit for the year	(2,184)	(63,236)

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. LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY AND DIVIDEND

The consolidated loss attributable to owners of the Company for the year ended 31 December 2009 includes a loss of HK$29,208,000 (2008: HK$112,279,000) which has been dealt with in the financial statements of the Company.

The board of directors do not recommend the payment of any dividend for the year ended 31 December 2009 (2008: HK$Nil).

12. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic loss per share is based on the loss for the year attributable to owners of the Company, and the weighted average number of ordinary shares of 999,403,000 (2008: 964,907,000 as restated) in issue during the year, as adjusted to reflect the rights issue and share consolidation during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2009 and 2008 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 loss per share is based on the 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 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 loss per share are calculated as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to owners of the Company used in the basic loss per share calculation	(864,145)	(1,243,920)

	2009	**2008**
	'000	*'000*
		(Restated)
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic loss per share	999,403	964,907

As the convertible bonds, convertible preferred shares, share options and warrants, where applicable, outstanding during the reporting periods 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 the respective reporting periods are the same.

13. STAFF COSTS, INCLUDING DIRECTORS' REMUNERATION

	2009 *HK$'000*	2008 *HK$'000*
Wages and salaries	7,767	5,824
Share options granted to directors and employees *(Note 30)*	–	43,548
Pension costs – defined contribution plans	513	63
	8,280	49,435

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
	–	1,886	23	1,909
Independent non-executive directors:				
Mr. Wan Tze Fan Terence	154	–	–	154
Mr. Chung Chin Keung	154	–	–	154
Mr. Liu Weichang	112	–	–	112
	420	–	–	420
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
	–	4,050	17	4,067
Independent non-executive directors:				
Mr. Wan Tze Fan Terence	132	195	–	327
Mr. Chung Chin Keung	121	–	–	121
Mr. Liu Weichang	60	195	–	255
	313	390	–	703

During the current and prior years, no emoluments 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 year included two (2008: three) directors, details of whose remuneration are set out in Note 14(a) above. Details of the remuneration of the remaining three (2008: two) non-director, highest paid individuals for the year are as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Basic salaries, share options and other benefits	1,023	8,940
Discretionary bonuses	208	31
Retirement benefit scheme contributions	35	10
	1,266	8,981

The emoluments fell within the following bands:

	Number of individuals	
	2009	**2008**
Nil – HK$1,000,000	3	–
HK$1,000,001 – HK$1,500,000	–	–
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

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improvements	Computer equipment	Plant and machinery	Furniture, fixtures and office equipment	Construction in progress	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008								
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
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	41,572	–	692	38,637	3	653	2,399	83,956
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	41,572	–	692	38,637	3	653	2,399	83,956

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

	2009	2008
	HK$'000	*HK$'000*
Outside Hong Kong, held on medium-term lease	31,624	32,171
Opening carrying amount	32,171	30,925
Amortisation	(698)	(694)
Exchange difference	151	1,940
Closing carrying amount	31,624	32,171
Less: Current portion included in other receivables, deposits and prepayments	(698)	(694)
Non-current portion	30,926	31,477

The Group's leasehold land is located in the PRC and held under a medium term lease with a term of 50 years commencing on 28 February 2005.

17. MINING RIGHTS

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

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

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 the year is shown on the face of the consolidated income statement.

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$355,000,000 as determined in the valuations report issued by the Professional Valuers is higher than their carrying amount, no impairment loss in 2009 (2008: loss of HK$230,814,000 had been recognised by the Group). 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 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.

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 increase/(decrease) in prices for the commodities concerned in 2009 and 2008 are as follows:

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

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

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

18. INTERESTS IN ASSOCIATES

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Share of net assets	–	1,112,008

Note:

On 23 April 2009, the Group's interest in Xin Shougang Zi Yuan Holdings Limited ("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 associates 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).

In the opinion of the directors, the above associates principally affected the results of the Group for the year or formed a substantial portion of the net assets of the Group before their reclassification and redesignation into available-for-sale investments on 23 April 2009. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

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

	2009	2008
	HK$'000	*HK$'000*
Total assets	N/A	5,214,872
Total liabilities	N/A	(223,813)
Net assets	N/A	4,991,059
Group's share of associates' net assets	N/A	1,112,008
Revenue for the period*/year	6	1,192
Loss for the period*/year	(46,150)	(5,186,593)
Group's share of associates' loss for the period*/year	(10,282)	(1,155,573)

* For the period from 1 January 2009 to 23 April 2009.

19. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES

	The Company	
	2009	2008
	HK$'000	*HK$'000*
Unlisted shares at cost	470,749	470,749
Less: provision for impairment	(49,503)	(49,483)
	421,246	421,266
Amounts due from subsidiaries	1,184,884	1,127,972
Less: provision for impairment	(662,621)	(105,909)
	522,263	1,022,063
Less: current portion	(6,500)	(1,022,063)
Non-current portion	515,763	–
Amounts due to subsidiaries	(157,873)	(157,910)

Except for the amounts due from subsidiaries totalling HK$6,500,000 (2008: HK$6,500,000), which bear interest at The Hongkong and Shanghai Banking Corporation Limited prime rate plus 1% per annum and repayable within one year, the amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, these advances in substance represent the Company's investments in the subsidiaries in the form of quasi equity loans.

The amounts due to subsidiaries are unsecured, interest free and repayable on demand.

Accumulated impairment provisions of HK$49,503,000 (2008: HK$49,483,000) and HK$662,621,000 (2008: HK$105,909,000) respectively were recognised as at 31 December 2009 because the related recoverable amounts of the investment costs and amounts due from subsidiaries with reference to the net assets or net deficit of the respective subsidiaries were estimated to be less than their respective carrying amounts. Accordingly, the carrying amounts of the related investment costs in subsidiaries and amounts due from them are reduced to their respective recoverable amounts.

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	Proportion of ownership interest Group's effective interest	Held by the Company	Held by subsidiary	Principal activity
e-gameasia.com Ltd	The British Virgin Islands ("BVI")/Hong Kong	10,279,450 ordinary shares of HK$1 each	100%	100%	–	Investment holding
Billybala Software (BVI) Limited	BVI/Hong Kong	1 ordinary share of US$0.01 each	100%	100%	–	Investment holding
Yichang Fulianjiang Joint Composite Limited *(Note (i))*	PRC	HK$122,238,000	100%	–	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%	100%	–	Investment holding
Yichang Shoukong Industries Co., Ltd. *(Note (i))*	PRC	HK$250,000,000	100%	–	100%	Investment holding
Billybala Software (Shenzhen) Limited *(Note (i))*	PRC	HK$1,000,000	100%	–	100%	Providing administrative service to group companies
Billybala iGame Limited	Hong Kong	HK$ 7 ordinary shares of HK$1 each	100%	–	100%	Providing administrative service to group companies
Zhong Ping Resources Holdings Limited	BVI/ Hong Kong	75,000,000 ordinary shares of HK$1 each	100%	100%	–	Investment holding
ARIA LLC *(Note (ii))*	Mongolia	1,330,000 ordinary shares of US$1 each	70%	–	70%	Mining resources development

Notes:

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

(ii) 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

	The Group 2009	2008
	HK$'000	*HK$'000*
Unlisted equity investments, at fair value	314,800	–

During the year, impairment loss on the Group's available-for-sale investments recognised in profit or loss amounted to HK$805,580,000 (Note 39(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 39(b)) as form 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 Greater China Appraisal Limited 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

	The Group 2009	2008
	HK$'000	*HK$'000*
Prepayments	42,059	967
Other receivables and deposits	69,995	103,609
	112,054	104,576
Less: Provision for impairment loss on prepayments	(273)	(273)
	111,781	104,303
Less: Current portion *(Note b)*	(54,550)	(12,841)
Non-current portion *(Note a)*	57,231	91,462

(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.

(b) As at 31 December 2009, current portion of prepayments included HK$41,800,000 paid to suppliers for future purchase 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

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Raw materials	25,458	8,115
Work in progress	205	4
Finished goods	25,056	973
	50,719	9,092

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 reporting period, based on the invoice date, is as follows:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Within 30 days	7,862	3,729
31 – 60 days	743	4,669
61 – 90 days	787	13,532
Over 90 days	1,396	23,151
	10,788	45,081

At 31 December 2009 and 2008, 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$51,066,000 (2008: HK$64,281,000). The RMB is not freely convertible into other currencies, however, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

25. TRADE PAYABLES

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

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Within 30 days	925	1,494
31 – 60 days	584	1,661
61 – 90 days	62	13
Over 90 days	941	10
	2,512	3,178

26. CONVERTIBLE BONDS

The Group's and the Company's outstanding convertible bonds as at 31 December 2009 and 2008 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 statements.

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 is HK$241,271,000 (2008: HK$232,552,000) as at 31 December 2009.

(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 was HK$6,228,000 as at 31 December 2008.

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 statement of financial position are calculated as follows:

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

27. DEFERRED TAX LIABILITIES

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

	The Group					The Company		
	Fair value adjustments arising from acquisition of subsidiaries	**Convertible bonds**	**Convertible preferred shares**	**Others**	**Total**	**Convertible bonds**	**Convertible preferred shares**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008	–	(3,269)	(148,923)	(19)	(152,211)	(3,269)	(148,923)	(152,192)
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	1,631	786	2,417
At 31 December 2008	(33,024)	(1,638)	(148,137)	(19)	(182,818)	(1,638)	(148,137)	(149,775)
Deferred tax credit/(change) to profit or loss during the year *(Note 10)*	2,022	817	(655)	–	2,184	817	(655)	162
At 31 December 2009	(31,002)	(821)	(148,792)	(19)	(180,634)	(821)	(148,792)	(149,613)

The Group has tax losses arising in Hong Kong of HK$1,733,000 (2008: HK$11,666,000) and the PRC of HK$23,758,000 (2008: HK$15,787,000) 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:

	2009	**2008**
	HK$'000	*HK$'000*
Year of expiry		
2009	–	553
2010	482	482
2011	794	794
2012	7,180	7,180
2013	5,794	6,778
2014	9,508	–
	23,758	15,787

28. CONVERTIBLE PREFERRED SHARES

The Group and Company

On 26 October 2007, the authorised convertible preferred shares (the "CPS") capital of HK$5 million divided into 4,000,000,000 CPS of 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 Company's and the Group's statements of financial position is calculated as follows:

	Number of CPS	**Equity component**	**Liability component**	**Total**
		HK$'000	*HK$'000*	*HK$'000*
At 1 January 2008	2,802,235,294	753,639	50,992	804,631
Imputed interest *(Note 8)*	–	–	4,764	4,764
At 31 December 2008	2,802,235,294	753,639	55,756	809,395
Adjustments for completion of				
– rights issue	791,729,248	–	–	–
– share consolidation	(3,234,568,088)	–	–	–
Imputed interest *(Note 8)*	–	–	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 2008 and 31 December 2008	96,000,000	120,000
Share consolidation *(Note (b))*	(86,400,000)	–
Ordinary share of HK$0.0125 each at 31 December 2009	9,600,000	120,000
Issued and fully paid:		
Ordinary share of HK$0.00125 each at 1 January 2008	7,475,355	9,344
Issues of new shares	722,000	903
Ordinary share of HK$0.00125 each at 31 December 2008	8,197,355	10,247
Rights issue *(Note (a))*	4,098,678	5,123
Share consolidation *(Note (b))*	(11,066,430)	–
Ordinary share of HK$0.0125 each at 31 December 2009	1,229,603	15,370

Notes:

(a) 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.

(b) 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.

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 the Post-Scheme and the movements of options during the year were as follows:

Grantees	Date of granted	Balance as at 1 January 2008 '000	Granted during the year '000	Exercised during the year '000	Lapsed during the year '000	Balance as at 31 December 2008 '000	Rights issue during the year '000	Share consolid-ation during the year '000	Balance as at 31 December 2009 '000	Period during which the options are exercisable	Adjusted exercise price per share
Ms. Ma Zheng (Director)	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 Winerthan (Ex-Director)	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
Employees	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
		–	681,000	–	(95,000)	586,000	150,016	(662,414)	73,602		

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 the year. At the end of reporting period and the date of approval of these financial statements, 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. RESERVES OF THE COMPANY

	Share premium account *HK$'000* *(Note)*	Convertible bonds reserves *HK$'000*	Employee compen-sation reserve *HK$'000*	Convertible preferred shares reserve *HK$'000*	Warrants reserve *HK$'000*	Accumulated losses *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2008	175,364	18,985	–	753,639	7,619	(130,197)	825,410
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	–
Issue of shares	107,398	–	–	–	–	–	107,398
Total comprehensive income for the year	–	–	–	–	–	(112,279)	(112,279)
Balance at 31 December 2008	282,762	18,985	38,031	753,639	7,619	(236,959)	864,077
Issue of rights shares, less issue expenses *(Note 29)*	70,077	–	–	–	–	–	70,077
Redemption of convertible bonds	–	(1,063)	–	–	–	1,063	–
Release upon lapse of warrants	–	–	–	–	(7,619)	7,619	–
Total comprehensive income for the year	–	–	–	–	–	(585,940)	(585,940)
Balance at 31 December 2009	352,839	17,922	38,031	753,639	–	(814,217)	348,214

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

32. DEREGISTRATION OF A SUBSIDIARY

Yichang Xin Shougang Precious Metal Mining Limited, a 62.7% owned subsidiary, was deregistered on 30 June 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)
Net identifiable assets and liabilities	6,039
Release of exchange translation reserve	(944)
	5,095
Assets retained by the Group on deregistration:	
Property, plant and equipment	100
Cash and cash equivalent	5,315
Gain on deregistration *(Note 7)*	(320)
	5,095

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

33. CAPITAL COMMITMENTS

The Group

Capital commitments outstanding at the end of reporting period not provided for in the financial statements were as follows:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Property, plant and equipment contracted but not provided for	32,588	84,222
Property, plant and equipment authorised but not contracted for	–	46,194
Proposed investment in an associate contracted but not provided for	–	8,950
	32,588	139,366

The Company

The Company does not have any significant capital commitments.

34. OPERATING LEASE ARRANGEMENTS

The Group

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

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

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Within one year	2,077	2,455
After one year but within five years	1,720	1,891
	3,797	4,346

The Company

The Company does not have any significant operating lease commitments.

35. CONTINGENT LIABILITIES

Environmental contingencies

To date, the Group has not incurred any significant expenditure for environmental remediation, and is currently not involved in any environmental remediation, and has not accrued any further amounts for environmental remediation relating to its operations. Under the existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group and therefore, no provision was made as at 31 December 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.

36. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed below. Expect for those disclosed elsewheres in the financial statements, 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:

	2009	**2008**
	HK$'000	*HK$'000*
Shareholder		
– Convertible bonds interest paid	167	415
– Payment for redemption of convertible bonds	6,395	–

The Group's and the Company'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) to the financial statements.

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

37. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which 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 ratio 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:

	2009	**2008**
	HK$'000	*HK$'000*
Debts	292,263	294,536
Cash and cash equivalents	(76,071)	(99,361)
Net debts	216,192	195,175
Equity	408,183	1,183,104
Net debts to equity ratio	52.96%	16.5%

38. FINANCIAL RISK MANAGEMENT

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

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

(a) Credit risk

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

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which the 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.

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 and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of reporting period) and the earliest date the Group and the Company can be required to pay:

Group	**Carrying amount** *HK$'000*	**Total contractual undiscounted cash flow** *HK$'000*	**Within 1 year or on demand** *HK$'000*	**More than 1 year but less than 2 years** *HK$'000*
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	–
	246,240	265,871	265,871	–
2008				
Convertible bonds	238,780	270,003	17,425	252,578
Trade payables	3,178	3,178	3,178	–
Other payables and accruals	14,596	14,596	14,596	–
	256,554	287,777	35,199	252,578

Company	**Carrying amount** *HK$'000*	**Total contractual undiscounted cash flow** *HK$'000*	**Within 1 year or on demand** *HK$'000*	**More than 1 year but less than 2 years** *HK$'000*
2009				
Convertible bonds	241,271	260,902	260,902	–
Amounts due to subsidiaries	157,873	157,873	157,873	–
Other payables and accruals	1,085	1,085	1,085	–
	400,229	419,860	419,860	–
2008				
Convertible bonds	238,780	270,003	17,425	252,578
Amounts due to subsidiaries	157,910	157,910	157,910	–
Other payables and accruals	724	724	724	–
	397,414	428,637	176,059	252,578

The above tables do not include the liability component of the Company's and the Group's CPSs which amounted to HK$50,992,000 and HK$55,756,000 as at 31 December 2009 and 2008, 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.

	2009		**2008**	
	Effective interest rate		**Effective interest rate**	
	%	*HK$'000*	*%*	*HK$'000*
Variable rate cash and bank balances	0.209%	51,238	1.024%	64,426

It is estimated that as at 31 December 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$513,000 (2008: HK$645,000).

(d) Currency risk

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

(e) Price risk – Commodity price risk

The 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 and 2008.

(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.

39. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2009 and 2008 may be categorised as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Financial assets		
Available-for-sale investments at fair value	314,800	–
Loans and receivables at amortised cost (including cash and cash equivalents)	89,433	156,589
Financial liabilities		
Financial liabilities measured at amortised cost	297,232	312,310

(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 the year 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)*	(805,580)
At 31 December 2009	314,800

III. UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE THREE MONTHS ENDED 31 MARCH 2010

Set out below are the unaudited consolidated results of the Company and its subsidiaries for the three months ended 31 March 2010, together with the comparative figures extracted from pages 2 to 10 of the first quarterly report of the Group for the three months ended 31 March 2010. The consolidated first quarterly financial statements of the Group have not been audited but have been reviewed by the audit committee of the Company.

Unaudited Results

The board of Directors (the "Board") of China Primary Resources Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 31 March 2010 together with the comparative figures as follows. The consolidated first quarterly financial statements of the Group have not been audited but have been reviewed by the audit committee of the Company.

Unaudited Condensed Consolidated Income Statement

		Three months ended 31 March	
		2010	**2009**
	Notes	*HK$'000*	*HK$'000*
			(restated)
Turnover	2	38,156	5,730
Other income and gain	3	30	36
Cost of inventories sold		(35,444)	(5,464)
Staff costs, including directors' remuneration		(1,437)	(1,745)
Depreciation		(726)	(465)
Amortisation of mining rights		(2,025)	(2,016)
Amortisation of land use rights		(175)	(174)
Other operating expenses		(5,396)	(3,231)
Share of losses of associates, net		–	(8,729)
Finance costs	4	(6,435)	(6,444)
Loss before income tax	5	(13,452)	(22,502)
Income tax credit	6	2,815	1,108
Loss for the period		(10,637)	(21,394)
Loss attributable to:			
Owners of the Company		(10,181)	(20,824)
Minority interests		(456)	(570)
		(10,637)	(21,394)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	8		
Basis and diluted		(0.83 cents)	(2.10 cents)
DIVIDEND		Nil	Nil

Unaudited Condensed Consolidated Statement Of Comprehensive Income

	Three months ended 31 March	
	2010	**2009**
	HK$'000	*HK$'000*
Loss for the period	(10,637)	(21,394)
Other comprehensive income		
Exchange differences on translation of associates	–	1,519
Exchange differences on translation of foreign operations	741	734
Other comprehensive income for the period, net of tax	741	2,253
Total comprehensive income for the period	(9,896)	(19,141)
Total comprehensive income for the period attributable to:		
Owners of the Company	(9,520)	(18,674)
Minority interests	(376)	(467)
	(9,896)	(19,141)

Notes to the Condensed Consolidated Financial Statements

1. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

The Company was incorporated in the Cayman Islands, as an exempted company with limited liability under the Companies Law (2001 Revision) of the Cayman Islands on 5 September 2001.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirement of Chapter 18 of the GEM Listing Rules and Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements are prepared under the historical cost convention.

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 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 statements, 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 statements on a going concern basis.

The condensed consolidated financial statements incorporated the financial statements of the Company and its principal subsidiaries for the period ended 31 March 2010. All material intercompany transactions and balances within the Group are eliminated on consolidation.

The accounting policies adopted in the condensed consolidated results are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009.

In this reporting period, the Group had applied for the first time, a number of new HKFRSs and Hong Kong Accounting Standards ("HKAS") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2010. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting period as prepared and presented.

Certain comparative amounts have been reclassified to conform with the current period's presentation.

2. TURNOVER

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

	Three months ended 31 March	
	2010	**2009**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Sales of PE/FRP Pipes	18,540	4,033
Sales of composite materials	19,616	1,697
	38,156	5,730

3. OTHER INCOME AND GAIN

	Three months ended 31 March	
	2010	**2009**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Bank interest income	27	36
Sundry income	3	–
	30	36

4. FINANCE COSTS

	Three months ended 31 March	
	2010	**2009**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest expenses on convertible bonds maturing within five years	4,942	5,046
Imputed interest on convertible preferred shares	1,191	1,191
Others	302	207
	6,435	6,444

5. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

	Three months ended 31 March	
	2010	**2009**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Minimum lease payments under operating lease charges in respect of land and buildings	526	647
Depreciation *(Note 1)*	1,764	783
Contribution to retirement benefit scheme	120	88
Write-off of property, plant and equipment	2,397	–

Note:

1. Depreciation expense of approximately HK$1,038,000 for the three months ended 31 March 2010 (three months ended 31 March 2009: approximately HK$318,000) has been expensed in cost of goods sold.

6. INCOME TAX CREDIT

(a) Taxation in the condensed consolidated income statement represents:

	Three months ended 31 March	
	2010	**2009**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Group:		
Deferred taxation		
– attributable to the origination and reversal of temporary differences, net	2,815	1,108
Total tax credit for the period	2,815	1,108

(b) No provision has been made for Hong Kong profits tax as the Group has no assessable profit arising from Hong Kong during the three months ended 31 March 2010 (three months ended 31 March 2009: Nil). Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

In accordance with various approval documents issued by the State Tax Bureau and the Local Tax Bureau of the PRC, Yichang Fuliangjiang 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 three months ended 31 March 2010 and prior years.

7. DIVIDEND

The Board does not recommend the payment of any interim dividend in respect of the three months ended 31 March 2010 (three months ended 31 March 2009: Nil).

8. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the period attributable to owners of the Company, and the weighted average number of ordinary shares of 1,229,603,280 (three months ended 31 March 2009: 991,879,979 as restated) in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the periods ended three months ended 31 March 2010 and 31 March 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 loss per share is based on the loss for the three months ended 31 March 2010 attributable to owners of the Company, adjusted to reflect the interest on the convertible bonds and convertible preferred shares and 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 three months ended 31 March 2010, as used in the basic 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 loss per share are calculated as follows:

	Three months ended 31 March	
	2010	**2009**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss		
Loss for the period attributable to the owners of the Company used in the basic loss per share calculation	10,181	20,824

	Three months ended 31 March	
	2010	**2009**
	'000	*'000*
		(restated)
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic loss per share	1,229,603	991,880

As the convertible bonds, convertible preferred shares, share options and warrants, where applicable, outstanding during the reporting periods 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 the respective reporting periods are the same.

9. UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the Company										
	Share capital	Share premium account	Convertible bonds reserve	Employee compen-sation reserve	Statutory surplus reserve	Convertible preferred shares reserve	Warrants reserve	Exchange translation reserve	Accumu-lated losses	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*
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 three months ended 31 March 2009	–	–	–	–	–	–	–	2,150	(20,824)	(467)	(19,141)
Balance at 31 March 2009	10,247	295,649	18,985	38,031	5,110	753,639	7,619	171,060	(174,251)	37,874	1,163,963

	Equity attributable to owners of the Company										
	Share capital	Share premium account	Convertible bonds reserve	Employee compen-sation reserve	Statutory surplus reserve	Convertible preferred shares reserve	Warrants reserve	Exchange translation reserve	Accumu-lated losses	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*
Balance at 1 January 2010	15,370	365,726	17,922	38,031	5,110	753,639	–	188,018	(1,008,890)	33,257	408,183
Total comprehensive income for the three months ended 31 March 2010	–	–	–	–	–	–	–	661	(10,181)	(376)	(9,896)
Balance at 31 March 2010	15,370	365,726	17,922	38,031	5,110	753,639	–	188,679	(1,019,071)	32,881	398,287

IV. WORKING CAPITAL

Working capital statement

As at 30 April 2010, the Group was in a net current liability position as the convertible bonds with Lehman Brothers are due for redemption in October 2010.

The Directors are of the opinion that on the bases that (i) the Disposal will be completed as currently envisaged; and (ii) the Group will be able to reach agreement with the Joint and Several Liquidators of Lehman Brothers Commercial Corporation Asia Limited (in liquidation) ("Lehman Liquidators") such that the Company will be able to redeem the entire 4.5% convertible bonds held by Lehman Liquidators, the Group will have sufficient working capital for its present requirement in the absence of unforeseen circumstances.

The Directors considered that on the bases as mentioned in the preceding paragraphs, the business of the Group is a going concern. The Company's auditors have, however, issued a disclaimer of opinion on the Group's accountants' report for the three years ended 31 December 2007, 2008 and 2009 due to the significance of the material uncertainly relating to the going concern basis in preparing the Group's financial information.

V. INDEBTEDNESS STATEMENT

Borrowings

At the close of business on 30 April 2010, being the latest practicable date prior to the printing of this circular for the purpose of this indebtedness statement, the Group had Preferred Shares with the related interest payables, Convertible Bonds with the related interest payables and secured bank borrowing in an aggregate amount of approximately HK$52.6 million, approximately HK$242.4 million and approximately HK$57.1 million, respectively.

A land use right and certain properties of the Group with an aggregate carrying value of approximately HK$74.9 million as at 30 April 2010 are pledged to a bank to secure a bank borrowing.

As at 30 April 2010, the Group had capital expenditure contracted for but not provided in respect of acquisition of plant and machinery of approximately HK$33.6 million.

Save as disclosed above and apart from the intra-group liabilities and normal trade bills arising in the ordinary course of business, as at the close of business on 30 April 2010, the Group did not have any other outstanding indebtedness, loan capital, bank overdrafts and liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase or finance lease commitments, guarantees or contingent liabilities.

Contingent Liabilities

As at 30 April 2010, the Group had not incurred any significant expenditure for environmental remediation. The Group 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 has made therefor. 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.

Save as disclosed above, the Group did not have any material contingent liability.

The Directors confirm that, save as disclosed therein, there has not been any material change in the indebtedness or contingent liabilities of the Group since 30 April 2010.

VI. MANAGEMENT DISCUSSION AND ANALYSIS ON THE REMAINING GROUP

Set out below is the management discussion and analysis of the operating results and business review of the Remaining Group for each of the year ended 31 December 2007, 2008, 2009. The discussion and analysis for the years ended 31 December 2007 and 2008 is extracted from pages 6 to 10 and pages 6 to 9 of the annual report for each of the year ended 31 December 2007 and 2008.

FOR THE YEAR ENDED 31 DECEMBER 2007

Operation review

During the year under review, the Group continued to engage in the general trading of FRP Pipes, raw materials and composite materials and production of FRP Pipes and polyethylene pipes ("PE" Pipes) in the PRC.

As stated in our previous quarterly report in 2007, production of FRP Pipes was still facing fierce competitions, and the resignation of Mr. Lang Fulai (key man to the FRP Pipes project) is still having a negative effect on the sale of the FRP Pipes. The management will consider if there can be any feasible solution for improving the business of FRP Pipes business.

On the other hand, the enhancement of the business of PE Pipes will be the focus of the management team in our production bases in Yichang, however, the sales in the year 2007 comparatively had not improved significantly, because we were still in the preliminary stages in that business. The management now have confidence in seeking ways of exploring more sales channel for that product in 2008 since they have full supports from our ex-director, Mr. Yu Hongzhi ("Mr. Yu") who has experience and business network in this business. In addition, Mr. Yu is the indirect substantial shareholder of the Company.

In the year of 2007, our mining business was very successful since we had completed the acquisition of the 22.28% interest in the registered capital of Xin Shougang, and, as stated in our announcement dated 17 March 2008, we will acquire a mining company incorporated in Mongolia, and this company holds a mining licence 10278A issued by the Minerals Resources and Petroleum Authority of Mongolia, which covers an aggregate area of 173 hectares in the mining area located at Mungun-Undur, Khentii Province. According to the preliminary technical report prepared by a technical advisers, about 83% of estimated mineral resources covered by the licence held are classified as the inferred resources in accordance with the Australia's standards ("Inferred Resources"). The estimated amount of Inferred Resources is 2.4 million tonnes. After completing the acquisition, we will engage an expert team to develop this project accordingly.

Financial review

For the year ended 31 December 2007, the Group recorded a turnover of approximately HK$31,826,000, which represented a decrease of 8% while compared with that of last year's turnover of approximately HK$34,731,000. The turnover in 2007 was mainly attributed from the trading and production of PE Pipes. This shows the management are in line with their plans in developing the PE Pipes business.

During the year under review, the audited profit before income tax was approximately HK$1,115,386,000 while the audited loss before income tax in the last year was approximately HK$5,876,000. The profit attributable to shareholders was approximately HK$1,115,983,000. The significant increase in the profit for the year was mainly due to the recognition of the excess amount of the Group's interests in the associated company – Xin Shougang Group over the purchase consideration and it was credited to the share of result of an associate in the consolidated income statement.

The Board will still adopt the stringent cost control and maintain thin and effective overheads structure and prudently utilize the corporate resources to create wealth for the shareholders.

Business outlook and prospects

The production of the PE Pipes was just initiated in the year of 2006, but the results of the business was still not very impressive, but it was within the expectation of the management since their previous effort in 2007 was mainly focused on how to control and maintain the production and operation process of the PE Pipes so as to effectively control the production cost and the quality of the products. With possession of these abilities, management are now expecting a huge improvement in the sales of PE Pipes in 2008 because they are planning to put more resources on developing the sales team in Yichang for exploring more sales channels for the PE Pipes.

On the other hand, as it was stated by our Chairman, the Board's another more important tasks are to integrate the mining business and exploring more business opportunities in mining investment, the two projects mentioned above are just the beginning, the mining business will be our Group's main areas to develop in the future, whilst the Group will continue in keeping abreast of its core business.

Liquidity and financial resources

As at 31 December 2007, the net assets of the Group had increased approximately to HK$2,084,581,000 (2006: HK$167,612,000) while its total assets were approximately HK$2,515,997,000 (2006: HK$175,662,000) including cash and bank balances of approximately of HK$294,063,000. With the current ratio of 146, the Group remained in a financially liquid position and is able to finance ongoing operation.

Funding activity during the year

During the year, the Company had raised funds from the following activity:

Subscription of convertible bonds

On 12 June 2007, the Company, as issuer, entered into a subscription agreement (the "Subscription Agreement") with Future Advance Holdings Limited ("Future Advance"), as warrantor, and Lehman Brothers Commercial Corporation Asia Limited ("Lehman Brothers"), which ultimate beneficial owner is Lehman Brothers Holdings Inc., as investor, in respect of the issuance of certain convertible bonds of an aggregate principal amount of HK$246.25 million due 2010 with an annual coupon of 4.5% (the "Convertible Bonds"). The foregoing issuance was completed on 31 October 2007 and details set out in our announcement on the same date.

The Convertible Bonds may be converted into such number of ordinary shares of HK$0.00125 each (the "Shares"), representing 10% of the Company's fully diluted share capital at the time of conversion. Specific terms and conditions of the Convertible Bonds can be found in our Subscription Agreement and our circular dated 5 September 2007.

As at 31 December 2007, the maximum number of new shares to be issued upon full conversion of the Convertible Bonds is 1,247,338,197 Shares.

Except for the above, the Company had no other funds raising activity during the year under review. The above fund raising activity provides the Company with present and future capital resources which are necessary for the development of the Company.

With the funds raised previously and the internal generated financial resources, the Group has cash and bank balance of approximately HK$294,063,000 as at 31 December 2007, the directors of the Company (the "Directors") anticipate that the Group has adequate financial resources to meet its ongoing operations and present development.

Gearing ratio

As at 31 December 2007, the Group had cash of approximately HK$206,696,000 and RMB82,125,000 in its current assets while its current liabilities stood at approximately HK$2,106,000. The Group had long-term loan of approximately HK$277,099,000 as of 31 December 2007 and its shareholders' funds amounted to approximately HK$2,080,878,000. In this regard, the Group had a net cash position and its gearing ratio should be approximately 13.3% (long term loan to total equity) as of 31 December 2007.

Exposure to fluctuations in exchange rates

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

Charge on group assets and contingent liabilities

As at 31 December 2007, the Group did not have any significant contingent liabilities and no assets of the Group were pledged (2006: Nil).

Segment information

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

Capital structure

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

Significant investments

The resolution for the acquisition of 22.28% interest in the registered capital of Xin Shougang for an aggregate consideration of approximately HK$971 million was duly passed on 2 October 2007 and the acquisition was then completed on 26 October 2007. Save as disclosed above, the Group had no other significant investments for the year ended 31 December 2007.

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

On 17 March 2008, the Company announced that on 11 March 2008, the Company and China Review Holdings (Group) Limited ("the Vendor") entered into an agreement pursuant to which the Company conditionally agreed to purchase and the Vendor conditionally agreed to sell the 100% of the issued share capital of Zhong Ping Resources Holdings Limited ("Zhong Ping") (the "Acquisition"), which, through ARIA LLC, its non wholly-owned subsidiary incorporated in Mongolia holds the majority interest of the mining right in respect of the project located at Mungun-Undur, Khentii Province, Mongolia, for a total consideration of HK$198,920,000. The consideration of which shall be satisfied as to (i) HK$40,080,000 by cash and (ii) HK$158,840,000 by the issue of the Shares of the Company. The Acquisition constitutes a discloseable transaction of the Company under Chapter 19 of the GEM Listing Rules. A circular containing, among other things, further details of the Acquisition and other information as required under the GEM Listing Rules will be despatched to the Shareholders as soon as practicable.

Save as disclosed above, there were no material acquisition or disposal of subsidiaries and affiliated companies during the year. The Company has no other future plans for material investments.

Employee information

As at 31 December 2007, the Group has 4 full-time employees working in Hong Kong and 57 full-time employees working in the PRC respectively. The total of employees' remuneration, for the year under review amounted to approximately HK$6,393,000. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

FOR THE YEAR ENDED 31 DECEMBER 2008

Set out below is the management discussion and analysis of the operating results and business review extracted from the annual report of the Company for the year ended 31 December 2008:

Operation review

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

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

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

Financial review

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

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

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

Business outlook and prospects

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

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

Liquidity and financial resources

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

Funding activities during the year

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

Gearing ratio

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

Exposure to fluctuations in exchange rates

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

Charge on group assets and contingent liabilities

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

Segment information

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

Capital structure

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

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

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

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

Significant investments

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

Employee information

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

FOR THE YEAR ENDED 31 DECEMBER 2009

Operation review

The financial tsunami broke out in the second half of the year 2008 had great impact on the economy of the whole world, including the PRC and Hong Kong. The performance and financial position of a lot of business corporations are greatly affected. The Group, however, is still maintaining a competitive position in the market with effective cost control and cash management. As expected, turnover for the year under review was reduced significantly due to the unfavourable economic condition. Other than this, the performance of the Group for the year under review was not seriously affected and is expected to improve when the economy recovers.

The business segment of the PE Pipes and FRP Pipes was performing well in 2009 and was the main business of the Group in 2009. This business segment has been the core business of the Group for many years. The PE Pipes and FRP Pipes are products employed for constructions and city development in the PRC. Our major customers are mainly government entities of different provinces and cities in the PRC, or their suppliers. Given the rapid and continuous development of the PRC market, the Directors believe that the demands for our products are both sustainable and look set to increase.

During the year under review, the Group's shareholding in Xin Shougang, previously an associated company of the Group, was reduced from 22.28% to 12.21%. The reduction was mainly due to the injection of additional share capital into Xin Shougang by the controlling shareholder of Xin Shougang. The investments are now classified as available-for-sale investments which is now the Sale Interest.

Save as mentioned above, during the year under review, the Group continued to engage in (i) manufacture and sale of PE Pipes and FRP Pipes and sale of composite materials; and (ii) mining businesses operating primarily in the markets of the independent sovereign state of Mongolia and the PRC. The latter is operated through the Group's investments in Xin Shougang. Upon disposal of the Sale Interest, the mining business in Mongolia will be the only mining business left.

The manufacture business is expected to improve its performance as the economy recovers. However, the financial tsunami broke out in 2008 has already affected the progress to commence the mining business. The management will carefully monitor the mining business for the benefit of the Company.

Auditors' Report – Disclaimer of opinion

Due to the fundamental uncertainty relating to the going concern basis of the Group, which in turn is due to the expiry of the convertible bonds issued by Lehman Brothers (In Liquidation) in October 2010, the auditors do not express an opinion on the financial statements as to whether or not they give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2009 and of the loss and cash flow of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards. Please refer to the independent auditors' report.

Financial review

For the year ended 31 December 2009, the Group recorded a turnover of approximately HK$38,712,000, which represented a decrease of 47% when compared with last year's turnover of approximately HK$72,770,000. The decrease in sale was mainly due to the decrease in sale of composite materials which contributed for over 73% of total turnover in the previous period. Such a decrease was mainly due to the unfavourable economic conditions and also the shifting of the Group's resources to the manufacture and sale of PE Pipes and FRP Pipes.

During the year under review, audited loss before income tax was approximately HK$868,389,000 while audited loss before income tax of last year was approximately HK$1,362,233,000. The loss attributable to owners of the Company was approximately HK$864,145,000 (2008: loss of approximately HK$1,243,920,000). The significant losses in 2009 and 2008 were mainly attributable to the significant impairment loss in the Group's investments in Xin Shougang. Upon the completion of the Disposal, no future impairment loss from the Sale Interest is expected to hit the Remaining Group. In the current economic environment, the Board will continue to adopt stringent cost control and maintain a low and effective overheads structure and prudently utilise the Group's corporate resources to create wealth for shareholders.

The current major challenge faced by the Group is to find a solution to settle the convertible bonds with Lehman Brothers. The liquidation of Lehman Brothers was totally unexpected. Because the convertible bonds issued by Lehman Brothers are due for redemption in October 2010, the Group is now in a net current liability position. The Company has been negotiating with the Joint and Several Liquidators of Lehman Brothers (In Liquidation) to look for a settlement solution. The directors are doing their best to investigate and come to a solution. Shareholders will be informed once there is a progress.

Rights issue

The issue by way of rights of 4,098,677,600 rights shares (the "Rights Share(s)") in the proportion of one Rights Share for every two shares held at a price of HK$0.02 per Rights Share (the "Rights Issue") was duly completed on 7 August 2009. Total net proceeds of approximately HK$75 million were received and the Company has applied proceeds of approximately HK$60 million to facilitate future development and expansion of the foregoing PE Pipes and FRP Pipes production business in the PRC. Details of the Rights Issue are set out in the announcement and the prospectus of the Company dated 24 June 2009 and 15 July 2009 respectively.

Share Consolidation

The consolidation of every ten shares of HK$0.00125 each in the issued and unissued share capital of the Company (the "Consolidated Shares") into one consolidated share of HK$0.0125 in the issued and unissued share capital of the Company (the "Share Consolidation") was duly passed by the shareholders of the Company by way of poll at the extraordinary general meeting held on 20 August 2009 and had come into effect on 21 August 2009.

The authorised ordinary share capital of the Company remained at HK$120,000,000 divided into 9,600,000,000 Consolidated Shares of HK$0.0125 each following the Share Consolidation.

As the price of the Shares was approaching the limit of HK$0.01, the Company was required to consolidate the Shares pursuant to Rule 17.76 of the GEM Listing Rules.

The Share Consolidation increase the par value of the shares of the Company (the "Shares") and reduce the total number of Shares currently in issue. Other than the expenses incurred by the Company in relation to the Share Consolidation, the implementation thereof has not affected the underlying assets, business operations, management or financial position of the Group or the interests of shareholders of the Company as a whole. Details of the Share Consolidation are set out in the announcement and circular of the Company dated 7 July 2009 and 23 July 2009 respectively.

Business outlook and prospects

The production of the PE Pipes and FRP Pipes was performing well in the year 2009. The Board of directors believe that this business segment will continue to grow and perform well even during the current unfavourable economic climate. The Group is now building an effective sales team to explore new markets and find more customers for its products. Such business operation will be the core operation of the Remaining Group upon disposal of the Sale Interest.

In the year 2010, as mentioned above, the Company will concentrate to find a solution to settle the 4.5% convertible bonds due for redemption on 31 October 2010.

Liquidity and financial resources

As at 31 December 2009, the net assets of the Group were approximately HK$408,183,000 (2008: approximately HK$1,183,104,000) while its total assets were approximately HK$886,049,000 (2008: approximately HK$1,678,232,000) including cash and bank balances of approximately HK$76,071,000 (2008: approximately HK$99,361,000).

Funding activities during the year

Other than the Rights Issue mentioned above, the Company did not carry out any fund raising activities during the year under review.

Gearing ratio

As at 31 December 2009, current assets of the Group amounted to approximately HK$192,173,000 which included cash of approximately HK$24,999,000 and RMB44,964,000 while current liabilities stood at approximately HK$246,240,000. The Group had long-term loan of approximately HK$50,992,000 as of 31 December 2009 and shareholders' funds amounted to approximately HK$374,926,000. In this regard, the Group was in a net cash position and had a gearing ratio of approximately 13.6% (long term loan to equity attributable to owners of the Company) as of 31 December 2009.

Exposure to fluctuations in exchange rates

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

Charge on group assets and contingent liabilities

As at 31 December 2009, the Group did not have any significant contingent liabilities and no assets of the Group were pledged (2008: HK$Nil).

Segment information

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

Capital structure

The ordinary shares of the Company were listed on the GEM of the Stock Exchange on 13 December 2001. There has been no change in the capital structure of the Company since the Company was listed except on 31 October 2007, the Company completed the creation and issuance of the non-listed preferred shares ("Preferred Shares") to Great Ocean Real Estate Limited ("GORE"). Based on the initial conversion rate of 1:1, GORE will be entitled to convert in full the Preferred Shares into 359,396,454 ordinary Shares of the Company.

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

There was no material acquisition or disposal of subsidiaries and affiliated companies during the year. The Disposal will be the only proposed disposal at the Latest Practicable Date.

Significant investments

Save as disclosed above, the Group had not made any significant investments for the year ended 31 December 2009.

Employee information

As at 31 December 2009, the Group had 5 full-time employees working in Hong Kong and 80 full-time employees working in the PRC. Total employees' remuneration for the year under review amounted to approximately HK$8,280,000. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

The Disposal

In view of operation, the Disposal will not have much impact on the Remaining Group as manufacturing of the PE Pipes and FRP Pipes has been the core business of the Group in the past few years and since the Acquisition.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The following is the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Remaining Group (collectively known as the "Unaudited Pro Forma Financial Information") which have been prepared in accordance with Paragraph 31 of Chapter 7 of the GEM Listing Rules for the purpose of illustrating the effect of the Disposal and Share Repurchase on the financial position of the Remaining Group as if the Disposal and Share Repurchase had been completed on 31 December 2009 and the results of the Remaining Group as if the Disposal and Share Repurchase had been completed at the commencement of the year ended 31 December 2009.

As the Unaudited Pro Forma Financial Information has been prepared for illustrative purpose only, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position and result of the Remaining Group following the completion of the Disposal and Share Repurchase.

The Unaudited Pro Forma Financial Information is based on the audited consolidated statement of financial position of the Group as at 31 December 2009, the audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2009 and the audited statement of cash flows, after giving effect to the pro forma adjustments relating to the Disposal and Share Repurchase that are (i) clearly shown and explained; (ii) directly attributable to the Disposal and Share Repurchase and not relating to future events or decisions; and (iii) factually supportable.

The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates and uncertainties. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position and results of the Remaining Group that would have been attained had the Disposal and Share Repurchase been completed on 31 December 2009 and at the commencement of the year ended 31 December 2009 respectively. The Unaudited Pro Forma Financial Information does not purport to predict the future financial positions or results of the Remaining Group.

1. Unaudited Pro Forma Consolidated Statement of Financial Position

	The Group as at 31 December 2009	Pro forma adjustments	The Remaining Group as at 31 December 2009
	HK$'000	*HK$'000*	*HK$'000*
		(Note 1)	
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	83,956		83,956
Land use rights	30,926		30,926
Mining rights	206,963		206,963
Available-for-sale investments	314,800	(314,800)	–
Deposits paid	57,231		57,231
	693,876		379,076
Current assets			
Inventories	50,719		50,719
Trade receivables	10,788		10,788
Other receivables, deposits and prepayments	54,550		54,550
Tax recoverable	45		45
Cash and cash equivalents	76,071	22,340	98,411
	192,173		214,513
Current liabilities			
Trade payables	2,512		2,512
Other payables and accruals	2,457		2,457
Convertible bonds	241,271		241,271
	246,240		246,240
Net current liabilities	(54,067)		(31,727)
Total assets less current assets	639,809		347,349
Non-current liabilities			
Deferred tax liabilities	180,634	(148,792)	31,842
Convertible preferred shares	50,992	(50,992)	–
	231,626		31,842
Net assets	408,183		315,507
Equity			
Share capital	15,370		15,370
Reserves	359,556	(92,676)	266,880
Equity attributable to owners of the Company	374,926		282,250
Minority interests	33,257		33,257
Total equity	408,183		315,507

2. Unaudited Pro Forma Consolidated Statement of Comprehensive Income

	The Group for the year ended 31 December 2009	Pro forma adjustments		The Remaining Group for the year ended 31 December 2009
	HK$'000	*HK$'000* *(Note 1)*	*HK$'000* *(Note 2)*	*HK$'000*
Turnover	38,712			38,712
Other income and gain	539			539
Cost of inventories sold	(33,110)			(33,110)
Staff costs, including directors' remuneration	(8,280)			(8,280)
Depreciation	(2,451)			(2,451)
Amortisation of mining rights	(8,090)			(8,090)
Amortisation of land use rights	(698)			(698)
Other operating expenses	(14,241)			(14,241)
Impairment loss on available-for-sale investments	(805,580)		805,580	–
Loss on disposal the Sale Interest	–	(20,869)		(20,869)
Share of losses of associates, net	(10,282)		10,282	–
Finance costs	(24,908)		4,764	(20,144)
Loss before income tax	(868,389)			(68,632)
Income tax credit	2,184			2,184
Loss for the year	(866,205)			(66,448)
Other compensation income				
Exchange difference on translation of associates	18,106	(18,106)		–
Exchange difference on translation	(2,022)			(2,022)
Other comprehensive income for the year, net of tax	16,084			(2,022)
Total comprehensive income for the year	(850,121)			(68,470)

3. Unaudited Pro Forma Consolidated Statement of Cash Flows

	The Group for the year ended 31 December 2009	Pro forma adjustments		The Remaining Group for the year ended 31 December 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*	
Operating activities				
Loss before income tax	(868,389)	(20,869)	820,626	(68,632)
Adjustments for:				
Depreciation	4,618			4,618
Amortisation of land use rights	698			698
Amortisation of mining rights	8,090			8,090
Bank interest income	(125)			(125)
Interest on convertible bonds	19,936			19,936
Imputed interest on convertible preferred shares	4,764		(4,764)	–
Written-off of property, plant and equipment	108			108
Impairment loss on available-for-sale investments	805,580		(805,580)	–
Gain on deregistration of a subsidiary	(320)			(320)
Share of losses of associates, net	10,282		(10,282)	–
Loss on disposal of the Sale Interest	–	20,869		20,869
Operating loss before working capital changes	(14,758)			(14,758)
Increase in inventories	(41,627)			(41,627)
Decrease in trade receivables	34,293			34,293
Increase in other receivables, deposits and prepayments	(41,705)			(41,705)
Decrease in trade payables	(666)			(666)
Decrease in other payables and accruals	(12,139)			(12,139)
Effect of foreign exchange differences	(33)			(33)
Cash used in operations	(76,635)			(76,635)
Interest income received	125			125
Net cash used in operating activities	(76,510)			(76,510)

	The Group for the year ended 31 December 2009	Pro forma adjustments		The Remaining Group for the year ended 31 December 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 1)	*(Note 2)*	
Investing activities				
Deposits paid	34,231			34,231
Purchases of property, plant and equipment	(25,583)			(25,583)
Deregistration of a subsidiary	(3,941)			(3,941)
Proceeds received from disposal of the Sale Interest	–	22,340		22,340
Net cash from investing activities	4,707			27,047
Financing activities				
Proceeds from issue of right shares	81,973			81,973
Share issue expenses	(6,773)			(6,773)
Redemption of convertible bonds	(6,395)			(6,395)
Convertible bond interest paid	(11,050)			(11,050)
Convertible preferred shares interest paid	(9,528)			(9,528)
Net cash from financing activities	48,227			48,227
Net decrease in cash and cash equivalents	(23,576)			(1,236)
Cash and cash equivalents at beginning of year	99,361			99,361
Effect of foreign exchange rate changes	286			286
Cash and cash equivalents at end of year	76,071	22,340		98,411
Analysis of the balances of cash and cash equivalents				
Cash at bank and in hand	76,071	22,340		98,411

Notes:

(1) The adjustment represents the Disposal and Share Repurchase.

The Repurchase Shares are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. As at 31 December 2009, the carrying values of the liability component and equity component of Repurchase Shares were approximately HK$50,992,000 and HK$753,639,000 respectively.

On the date of Completion, the Company will measure the Repurchase Shares at the prevailing fair value based on the valuation to be performed by professional valuers. The fair value of the Repurchase Shares will be allocated into the financial liabilities component at fair value and equity component at the residual value and state them through profit or loss and accumulated losses respectively. The gain on the Share Repurchase of HK$4,288,000 based on the position as at 9 April 2010 for the purpose of this Unaudited Pro Forma Financial Information represents the difference between the carrying value of the financial liability component of the Repurchase Shares of HK$50,992,000 and the fair value of the financial liability component of HK$46,704,000 as at the date of Completion. The loss on Disposal of HK$25,157,000 is based on (i) the aggregate of the cash consideration of HK$25,340,000 and the fair value of the Repurchase Shares of HK$114,977,000 based on the position as at 9 April 2010 (as if this was the date of Completion) for the purpose of this Unaudited Pro Forma Financial Information, less the carrying value of Sale Interest of HK$314,800,000; and (ii) the release of the Group's exchange reserve related to the Sale Interest of HK$152,326,000, less estimated expenses incurred for the Disposal of HK$3,000,000.

The Group therefore records a net loss of HK$20,869,000 in the Share Repurchase and Disposal, and a net proceed of HK$22,340,000.

The estimated difference of HK$685,366,000 between the carrying value and fair value of the equity component of the Repurchase Shares and the release of deferred tax liabilities attributable to the Repurchase Shares of HK$148,792,000 will be recorded as transfers to the Group's accumulated losses.

(2) The adjustments reflect the exclusion of the impairment loss and share of loss of associates attributable to the Sale Interest and finance costs (dividends) attributable to the Repurchase Shares from the consolidated income statement of the Group for the year ended 31 December 2009 assuming that the Disposal had taken place on 1 January 2009.

(3) The net asset value per Share will be approximately HK$0.26 (based on 1,229,603,280 issued ordinary shares as at the Latest Practicable Date) upon Completion.

(4) Assuming that the Transactions had been completed at the commencement of the year ended 31 December 2009, the Group's loss per share for the year ended 31 December 2009 would be approximately HK$0.065 (based on 999,403,579 weighted average number of ordinary shares for the purpose of calculating basic loss per share for the year ended 31 December 2009).

(B) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The following is the text of a report from BDO Limited, the reporting accountants of the Company, in respect of the unaudited pro forma financial information of the Remaining Group as set out in this Appendix and prepared for the sole purpose of inclusion in this circular.

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香港干諾道中111號
永安中心25樓

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 report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of China Primary Resources Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") which have been prepared by the directors of the Company, solely for illustrative purposes only, to provide information about how the proposed disposal of the Group's 12.21% interest in the registered paid up capital of Xin Shougang Zi Yuan Holdings Limited (the "Disposal") and the proposed repurchase and cancellation of the Repurchase Shares by the Company under the Agreement (the "Share Repurchase"), might have affected the financial information of the Group. The Group which remains after the Disposal is referred to as the "Remaining Group". The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 109 to 114 of the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the GEM Listing Rules and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information as set out in Appendices II and III of the Circular with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Remaining Group as at 31 December 2009 or any future date; or
- the financial results and cash flows of the Remaining Group for the year ended 31 December 2009 or for any future period.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

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

Shiu Hong NG
Director
Practising Certificate number P03752

(I) ACCOUNTANTS' REPORT ON THE GROUP

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong. The financial information in this appendix is disclosed for the purpose of complying with relevant requirements of the GEM Listing Rules.

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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:

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

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	1,115,658	(1,298,997)	(866,205)
Other comprehensive income:			
Exchange differences on translation of associates	–	134,220	18,106
Exchange differences of translation	11,430	23,573	(2,022)
Other comprehensive income for the year, net of tax	11,430	157,793	16,084
Total comprehensive income for the year	1,127,088	(1,141,204)	(850,121)
Total comprehensive income for the year attributable to:			
Owners of the Company	1,127,017	(1,087,964)	(845,037)
Minority interests	71	(53,240)	(5,084)
	1,127,088	(1,141,204)	(850,121)

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:

		As at 31 December		
		2007	**2008**	**2009**
	Notes	*HK$'000*	*HK$'000*	*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
		2,207,820	1,511,812	693,876
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
		308,177	166,420	192,173
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
		2,106	24,002	246,240
Net current assets/(liabilities)		306,071	142,418	(54,067)
Total assets less current liabilities		2,513,891	1,654,230	639,809
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
		429,310	471,126	231,626
Net assets		2,084,581	1,183,104	408,183
EQUITY				
Share capital	29	9,344	10,247	15,370
Reserves		2,071,534	1,134,516	359,556
Equity attributable to owners of the Company		2,080,878	1,144,763	374,926
Minority interests		3,703	38,341	33,257
Total equity		2,084,581	1,183,104	408,183

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 HK$'000	Share premium account HK$'000 *(Note a)*	Convertible bonds reserve HK$'000 *(Note 26)*	Employee compen-sation reserve HK$'000 *(Note 30)*	Statutory surplus reserve HK$'000 *(Note b)*	Convertible preferred shares reserve HK$'000 *(Note 28)*	Warrants reserve HK$'000 *(Note c)*	Exchange translation reserve HK$'000 *(Note d)*	(Accumulated losses)/ retained profits HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1 January 2007	8,519	167,601	1,063	1,531	5,110	–	8,224	1,920	(31,007)	4,651	167,612
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	9,344	188,251	18,985	–	5,110	753,639	7,619	12,954	1,084,976	3,703	2,084,581
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	10,247	295,649	18,985	38,031	5,110	753,639	7,619	168,910	(153,427)	38,341	1,183,104

Consolidated Statement of Changes in Equity *(Continued)*

	Equity attributable to owners of the Company										
	Share capital HK$'000	Share premium account HK$'000 (Note a)	Convertible bonds reserve HK$'000 (Note 26)	Employee compen-sation reserve HK$'000 (Note 30)	Statutory surplus reserve HK$'000 (Note b)	Convertible preferred shares reserve HK$'000 (Note 28)	Warrants reserve HK$'000 (Note c)	Exchange translation reserve HK$'000 (Note d)	(Accumulated losses)/ retained profits HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1 January 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	15,370	365,726	17,922	38,031	5,110	753,639	–	188,018	(1,008,890)	33,257	408,183

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:

		Year ended 31 December		
		2007	**2008**	**2009**
	Notes	*HK$'000*	*HK$'000*	*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)*

		Year ended 31 December		
		2007	**2008**	**2009**
	Notes	*HK$'000*	*HK$'000*	*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		(40,690)	(154,440)	4,707
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		257,740	(7,511)	48,227
Net increase/(decrease) in cash and cash equivalents		201,520	(200,184)	(23,576)
Cash and cash equivalents at beginning of year		88,204	294,063	99,361
Effect of foreign exchange rate changes		4,339	5,482	286
Cash and cash equivalents at end of year		294,063	99,361	76,071
Analysis of the balances of cash and cash equivalents				
Cash at bank and in hand		294,063	99,361	76,071

(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 thee 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's 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	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Sale of PE/FRP pipes	7,113	19,772	29,780
Sale of composite materials	24,713	52,998	8,932
	31,826	72,770	38,712

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	7,113	19,772	29,780	24,713	52,998	8,932	–	–	–	31,826	72,770	38,712
Reportable segment loss	(2,371)	(1,658)	(4,705)	(4,549)	(362)	(2,667)	–	(243,485)	(8,275)	(6,920)	(245,505)	(15,647)
Reportable segment assets	69,038	151,581	263,012	–	25,638	21,945	–	214,057	207,042	69,038	391,276	491,999
Reportable segment liabilities	(1,015)	(16,705)	(3,647)	–	–	–	–	(215)	(179)	(1,015)	(16,920)	(3,826)
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										5,804	246,357	4,618
Amortisation of land use rights	653	694	698	–	–	–	–	–	–	653	694	698
Amortisation of mining rights	–	–	–	–	–	–	–	12,552	8,090	–	12,552	8,090

	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										(272)	(63,236)	(2,184)
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										2,312	487,614	25,583
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	1,115,386	(1,362,233)	(868,389)

	31 December		
	2007	2008	2009
	HK$'000	*HK$'000*	*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	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*
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
	1,601	7,524	539

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
	4,494	25,330	24,908

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	(57)	–	–

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 *(Note 27)*			
– 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)
Effect of dilutive potential ordinary shares:			
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	1,120,205	(1,243,920)	(864,145)

	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
Effect of dilutive potential ordinary shares:			
– 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	1,391,096	964,907	999,403

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
	6,393	49,435	8,280

14. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Executive directors and non-executive directors

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

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

During the Relevant Peirods, 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	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
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
	2,097	8,981	1,266

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	–

15. PROPERTY, PLANT AND EQUIPMENT

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

	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	41,572	–	692	38,637	3	653	2,399	83,956
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	41,572	–	692	38,637	3	653	2,399	83,956

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	30,925	32,171	31,624
Opening carrying amount	29,102	30,925	32,171
Amortisation	(653)	(694)	(698)
Exchange difference	2,476	1,940	151
Closing carrying amount	30,925	32,171	31,624
Less: Current portion included in other receivables, deposits and prepayments	(653)	(694)	(698)
Non-current portion	30,272	31,477	30,926

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	**2008**	**2009**
	HK$'000	*HK$'000*	*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
Closing carrying amount	–	214,057	206,963
As at 31 December			
Cost	–	451,806	451,806
Accumulated amortisation and impairment loss	–	(243,366)	(251,456)
Exchange difference	–	5,617	6,613
Net carrying amount	–	214,057	206,963

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**
Munggun-Undur Polymetiallic mine	Mungun-Undur, Khentii Province, Mongolia	10 August 2035

18. INTERESTS IN ASSOCIATES

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

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

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

* 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 (ii))*	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**
	HK$'000	*HK$'000*	*HK$'000*
Unlisted equity investments, at fair value	–	–	314,800

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

(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	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	358	8,115	25,458
Work in progress	–	4	205
Finished goods	80	973	25,056
	438	9,092	50,719

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	**2008**	**2009**
	HK$'000	*HK$'000*	*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
	–	45,081	10,788

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	**2008**	**2009**
	HK$'000	*HK$'000*	*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
	68	3,178	2,512

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	**2008**	**2009**
	HK$'000	*HK$'000*	*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	226,107	232,552	–

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	Convertible bonds	Convertible preferred shares	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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	**2008**	**2009**
	HK$'000	*HK$'000*	*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 *(Note 8)*	–	–	794	794
At 31 December 2007	2,802,235,294	753,639	50,992	804,631
Imputed interest *(Note 8)*	–	–	4,764	4,764
At 31 December 2008	2,802,235,294	753,639	55,756	809,395
Adjustments for completion of				
– rights issue	791,729,248	–	–	–
– share consolidation	(3,234,568,088)	–	–	–
Imputed interest *(Note 8)*	–	–	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 *(Note (a))*	(4,000,000)	(5,000)
Ordinary share of HK$0.00125 each at 31 December 2007 and 2008	96,000,000	120,000
Share consolidation *(Note (e))*	(86,400,000)	–
Ordinary share of HK$0.0125 each at 31 December 2009	9,600,000	120,000
Issued and fully paid:		
Ordinary share of HK$0.00125 each at 1 January 2007	6,815,267	8,519
Exercise of warrants *(Note (b))*	484,088	605
Exercise of share options *(Note (c))*	176,000	220
Ordinary share of HK$0.00125 each at 31 December 2007	7,475,355	9,344
Issues of new shares	722,000	903
Ordinary share of HK$0.00125 each at 31 December 2008	8,197,355	10,247
Rights issue *(Note (d))*	4,098,678	5,123
Share consolidation *(Note (e))*	(11,066,430)	–
Ordinary share of HK$0.0125 each at 31 December 2009	1,229,603	15,370

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:

	2007					2008 and 2009									
Grantees	Date of granted	Balance as at 1 January 2007	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 consol-idation during the year	Balance as at 31 December 2009	Period during which the options are exercisable	Adjusted exercise price per share
		'000	'000	'000	'000		'000	'000	'000	'000	'000	'000	'000		
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 Winerthan *(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
		8,800	(8,800)	–	–		681,000	–	(95,000)	586,000	150,016	(662,414)	73,602		

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)
Net identifiable assets and liabilities	6,039
Release of exchange translation reserve	(944)
	5,095
Assets retained by the Group on deregistration:	
Property, plant and equipment	100
Cash and cash equivalent	5,315
Gain on deregistration *(Note 7)*	(320)
	5,095

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	**2008**	**2009**
	HK$'000	*HK$'000*	*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	–	–
	186,199	139,366	32,588

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	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	721	2,455	2,077
After one year but within five years	947	1,891	1,720
	1,668	4,346	3,797

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. Expect 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

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	(16,964)	195,175	216,192
Equity	2,084,581	1,183,104	408,183
Net debts to equity ratio	N/A	16.5%	52.96%

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	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007					
Convertible bonds	226,107	281,781	11,778	17,425	252,578
Trade payables	68	68	68	–	–
Other payables and accruals	2,038	2,038	2,038	–	–
	228,213	283,887	13,884	17,425	252,578
2008					
Convertible bonds	238,780	270,003	17,425	252,578	–
Trade payables	3,178	3,178	3,178	–	–
Other payables and accruals	14,596	14,596	14,596	–	–
	256,554	287,777	35,199	252,578	–
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	–	–
	246,240	265,871	265,871	–	–

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%	87,529	1.024%	64,426	0.209%	51,238

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

(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)*	(805,580)
At 31 December 2009	314,800

(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 of 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**
	HK$'000	*HK$'000*	*HK$'000*
Impairment loss	–	–	(805,580)
Share of profits/(losses)	1,139,370	(1,155,573)	(10,282)
Profits/(loss) for the year	1,139,370	(1,155,573)	(815,862)
Other comprehensive income			
Exchange differences on translation	–	134,220	18,106
Total comprehensive income for the year	1,139,370	(1,021,353)	(797,756)

(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**
	HK$'000	*HK$'000*	*HK$'000*
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	2,133,361	1,112,008	314,800
Equity interest held	22.28%	22.28%	12.21%

(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
Net cash flows	–	–	–

(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

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and (2) there are no other matters the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date, and immediately after Completion and decrease in authorised share capital are and will be as follows:

(a) As at the Latest Practicable Date

	Number of shares	Amount
		HK$
Authorised:		
Ordinary shares of HK$0.0125 each	9,600,000,000	120,000,000
Preferred Shares of HK$0.00125 each	4,000,000,000	5,000,000
Issued and fully paid:		
Ordinary shares of HK$0.0125 each	1,229,603,280	15,370,041
Preferred Shares of HK$0.00125 each	2,802,235,294	3,502,794

All the issued Shares rank *pari passu* with each other in all respects including the rights to voting, dividends and return of capital.

All the issued Preferred Shares rank *pari passu* with each other in all respects including the rights to dividends and return of capital. The holder of the Preferred Shares does not have any voting rights. The Preferred Shares rank in priority to the Shares as to the rights to dividends and return of capital.

(b) Immediately after Completion and decrease in authorised share capital

	Number of shares	Amount
		HK$
Authorised:		
Ordinary shares of HK$0.0125 each	9,600,000,000	120,000,000
Issued and fully paid:		
Ordinary shares of HK$0.0125 each	1,229,603,280	15,370,041

The Company has not issued or repurchased any Shares since 31 December 2009, being the date of the end of the last financial year of the Company. The Company has not repurchased any Shares, Preferred Shares, convertible securities and derivatives during the 12 months period immediately preceding the date of this circular.

As at the Latest Practicable Date, GORE, held 2,802,235,294 Preferred Shares which are convertible into a maximum of 359,396,454 Shares.

As at the Latest Practicable Date, there were 73,601,600 outstanding Share Options entitling the holders thereof to subscribe for a total of 73,601,600 new Shares. The exercise price of all of the outstanding Share Options is HK$1.752 with an exercise period from 8 July 2008 to 27 November 2011. As at the Latest Practicable Date, there were outstanding Convertible Bonds in the principal amount of approximately HK$246 million which are convertible into 184,733,481 Shares at the prevailing conversion price.

Save as disclosed above, the Company did not have any outstanding options, warrants, derivatives or securities convertible into Shares and with conversion rights affecting shares of the Company as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS

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

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

The approximate percentage of interest set out below is based on 1,229,603,280 Shares in issue as at the Latest Practicable Date, but not on the total number of issued Shares upon full conversion or exercise of (i) the Convertible Bonds, (ii) the Preferred Shares and (iii) the 73,601,600 (adjusted) outstanding Share Options granted under the share option scheme adopted by the Company on 28 November 2001.

(i) Long position in the ordinary Shares of HK$0.0125 each in the Company as at the Latest Practicable Date:

	Number of ordinary shares held		
Name of Director	**Type of interests**	**Number of ordinary shares**	**Approximate percentage of interests**
Ms. Ma Zheng	Beneficial *(Note 1)*	8,100,000 *(Note 2)*	0.66%

Notes:

1. In addition to 8,100,000 Shares held in her own name, Ms. Ma Zheng is holding 12.5% of the equity interest of Future Advance and Future Advance beneficially owns 23.39% of the equity interest of the Company. For information purpose, Ms. Ma Zheng is an executive director of the Company and the sole director of Future Advance.

2. Adjustment was made to the balances of the number of ordinary shares resulting from the consolidation ("Share Consolidation") of every 10 existing ordinary shares of HK$0.00125 each in the issued and unissued share capital into one consolidated share of HK$0.0125 each in the issued and unissued share capital of the Company duly approved at the extraordinary general meeting held on 20 August 2009 by the shareholders and becoming effective on 21 August 2009.

(ii) Long position in the underlying shares or debentures of the Company as at the Latest Practicable Date:

Name of Directors	Number of options held	Date of grant	Exercise period	Exercise price per share *(HK$)*	Nature of Interest	Approximate percentage of the issued share capital of the Company
Ms. Ma Zheng	2,512,000	8 January 2008	8 July 2008 to 27 November 2011	1.752	Beneficial	0.20%
Mr. Liu Weichang	376,800	8 January 2008	8 July 2008 to 27 November 2011	1.752	Beneficial	0.03%
Mr. Wan Tze Fan Terence	376,800	8 January 2008	8 July 2008 to 27 November 2011	1.752	Beneficial	0.03%

Notes:

1. On 8 January 2008, Ms. Ma Zheng, the sole director of Future Advance and an executive Director, had been granted 20,000,000 share options (pursuant to the completion of the Rights Issue and the Share Consolidation, the number of share options has been adjusted to 2,512,000 on 20 August 2009) under the existing share option scheme adopted in compliance with Chapter 23 of the GEM Listing Rules which carry rights to subscribe for 20,000,000 new Shares at the current exercise price of HK$0.22 per new Shares (pursuant to the completion of the Rights Issue and the Share Consolidation, the right to subscribe for new Shares and the subscription price of the share options have been adjusted to 2,512,000 and HK$1.752 per new Share respectively on 20 August 2009).

2. On 8 January 2008, Mr. Liu Weichang, an independent non-executive Director, had also been granted 3,000,000 share options (pursuant to the completion of the Rights Issue and the Share Consolidation, the number of share options has been adjusted to 376,800 on 20 August 2009) under the existing share option scheme adopted in compliance with Chapter 23 of the GEM Listing Rules which carry rights to subscribe for 3,000,000 new Shares at the current exercise price of HK$0.22 per new Shares (pursuant to the completion of the Rights Issue and the Share Consolidation, the right to subscribe for new Shares and the subscription price of the share options have been adjusted to 376,800 and HK$1.752 per new Share respectively on 20 August 2009).

3. On 8 January 2008, Mr. Wan Tze Fan Terence, an independent non-executive Director, had also been granted 3,000,000 share options (pursuant to the completion of the Rights Issue and the Share Consolidation, the number of share options has been adjusted to 376,800 on 20 August 2009) under the existing share option scheme adopted in compliance with Chapter 23 of the GEM Listing Rules which carry rights to subscribe for 3,000,000 new Shares at the current exercise price of HK$0.22 per new Shares (pursuant to the completion of the Rights Issue and the Share Consolidation, the right to subscribe for new Shares and the subscription price of the share options have been adjusted to 376,800 and HK$1.752 per new Share respectively on 20 August 2009).

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

(b) Substantial shareholders' interests and short positions in the Share or underlying Share

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

The approximate percentage of interest set out below is based on 1,229,603,280 Shares in issue as at the Latest Practicable Date, but not on the total number of issued Shares upon full conversion or exercise of (i) the Convertible Bonds, (ii) the Preferred Shares and (iii) the 73,601,600 (adjusted) outstanding share options granted under the share option scheme adopted by the Company on 28 November 2001.

(i) Long position in the ordinary shares of HK$0.0125 each in the Company as at the Latest Practicable Date:

Name of shareholders	Type of interests	Number of shares held	Approximate percentage of interests
Future Advance Holdings Limited	Beneficial	287,619,446	23.39%
China Zong Heng Holdings Limited	Corporate *(Note 1)*	287,619,446	23.39%
Mr. Yu Hongzhi	Corporate *(Note 1)*	287,619,446	23.39%
	Beneficial	11,400,000	0.93%
	Subtotal:	299,019,446	24.32%
APAC Resources Limited	Corporate *(Note 2)*	129,436,878	10.53%
Super Grand Investments Limited ("Super Grand")	Beneficial	129,436,878	10.53%

Notes:

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

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

(ii) Dealings by Directors, substantial Shareholders or parties acting in concert with Director(s)

None of the Directors and parties acting in concert with any of them has dealt for value in the Repurchase Shares, Shares and convertible securities, warrants, options and derivatives in respect of the Shares of the Company during the Relevant Period.

None of the Shareholder who holds 10% or more of the voting rights of the Company has dealt for value in the Repurchase Shares, Shares and convertible securities, warrants, options and derivatives in respect of the Shares of the Company during the Relevant Period.

None of the Directors or any persons acting in concert with them has borrowed or lent any Shares as at the Latest Practicable Date.

Ms. Ma Zheng, the Director, is the sole director of Future Advance. Accordingly, Future Advance, China Zong Heng Holdings Limited, Mr. Yu Hongzhi, Zhong Nan Mining Group Limited, and Mr. Zhang Lei are parties acting in concert with Ms. Ma Zheng. The total number of Shares held by Ms. Ma Zheng, Future Advance, China Zong Heng Holdings Limited, Mr. Yu Hongzhi, Zhong Nan Mining Group Limited, and Mr. Zhang Lei is 307,119,446 Shares, representing approximately 24.98% of shareholding interests in the Company. Ms. Ma Zheng held 8,100,000 Shares personally while Zhong Nan Mining Group Limited and Mr. Zhang Lei did not hold any Shares as at the Latest Practicable Date. The parties acting in concert with Ms. Ma Zheng had not dealt for value in the Repurchase Shares, Shares and convertible securities, warrants, options and derivatives in respect of the Shares of the Company during the Relevant Period.

(iii) Long position in the underlying shares or debentures of the Company as at the Latest Practicable Date:

Name	**Type of interests**	**Description of derivatives**	**Number of underlying shares**	**Approximate percentage of interests**
Lehman Brothers (in liquidation)	Beneficial	Convertible Bonds *(Notes 1 & 3)*	184,733,481	15.02%
GORE	Beneficial	Preferred Shares *(Notes 2 & 3)*	359,396,454	29.23%
Mr. Zhang Zheng (張征先生)	Corporate	Preferred Shares *(Notes 2 & 3)*	359,396,454	29.23%

Notes:

1. The total number of shares to which Lehman Brothers (in liquidation) are entitled under the Convertible Bonds has taken into account the existing issued share capital of the Company and all outstanding securities which may be convertible into or carry rights to subscribe for new Shares. Based on the existing issued share capital and exercise in full of all other securities carrying rights to subscribe for new Shares including warrants and share options and other convertible securities convertible into new Shares of the Company outstanding as at Latest Practicable Date, the maximum number of new Shares to be issued upon full conversion of the Convertible Bonds is 184,733,481, representing 10% of the issued share capital of the Company as enlarged by the full conversion of the aforesaid convertible securities. Details of the Convertible Bonds are set out in the circular of the Company dated 5 September 2007.

2. These underlying shares are held by GORE, a company incorporated in the British Virgin Islands with limited liability. Mr. Zhang Zheng (張征) is the sole beneficial owner of GORE. The Preferred Shares issued carry conversion right to convert into ordinary shares of the Company at the initial conversion rate of 1:1 (adjusted to 1:1.2825 on 16 July 2009 and further adjusted to 1:0.1282 on 20 August 2009).

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

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

4. DIRECTORS' OTHER INTERESTS

Save as disclosed in the paragraph headed "Disclosure of Interests" above in this appendix, no contract of significance to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

As at the Latest Practicable Date, none of the Directors had, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2009, the date to which the latest published audited consolidated financial statements of the Group were made up.

Mr. Yu Hongzhi, the director of the Company's subsidiary Yichang Fulianjiang Joint Composite Limited (宜昌富連江複合材料有限公司), is the director and legal representative of 宜昌弘訊管業有限公司 (Yichang HongXun Conduit and Calling Company Limited), which is a company incorporated in the PRC and principally engaged in selling and producing PE Pipes in the PRC. Mr. Yu Hongzhi was not a substantial shareholder of 宜昌弘訊管業有限公司 (Yichang HongXun Conduit and Calling Company Limited) during the year ended 31 December 2009 and up to the Latest Practicable Date. Save as disclosed above, as at the Latest Practicable Date, none of the Directors, management shareholders, substantial shareholders and any of their respective associates has engaged in any business that competes or may compete directly or indirectly, with the business of the Group, or has or may have any other conflicts of interest with the Group.

5. MARKET PRICES

The table below shows the closing price of the Shares on the Stock Exchange on (i) the end of each of the calendar months commencing six months preceding the date of the Announcement and ending on the Latest Practicable Date; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Date	**Closing price per Share** *HK$*
30 October 2009	0.215
30 November 2009	0.208
31 December 2009	0.184
29 January 2010	0.199
26 February 2010	0.200
31 March 2010	0.197
Last Trading Day	0.199
30 April 2010	0.182
Latest Practicable Date	0.119

The highest and lowest closing prices of the Shares during the period commencing six months preceding the date of the Announcement and up to the Latest Practicable Date were HK$0.228 per Share on 16 November 2009 and HK$0.115 per Share on 26 May 2010.

6. LITIGATION AND CLAIMS

The Company is now in the process of negotiations with Lehman Brothers on the proposed settlement of the Convertible Bonds, which will be due on 31 October 2010. No concrete plan has been agreed between the parties as at the Latest Practicable Date. If no settlement plan has been concluded with Lehman Brothers and the Company could not repay the Convertible Bonds upon its maturity, the Company may be claimed by Lehman Brothers through various ways including litigation.

As at the Latest Practicable Date, save as disclosed above, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

8. EXPERTS AND CONSENTS

The following are the qualification of the experts who have been named in this circular or has given opinions or advice which are contained in this circular.

Name	Qualification
BDO Limited	Certified public accountants
Vinco Capital	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity under the SFO

Each of Vinco Capital and BDO Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter(s) and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of Vinco Capital and BDO Limited did not have any shareholding, directly or indirectly, in any member or the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of Vinco Capital and BDO Limited did not have any direct or indirect interests in any assets which had been, since 31 December 2009 (being the date to which the latest published audited consolidated financial statements of the Company were made up), (i) acquired or disposed of by; (ii) leased to; (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group.

9. MATERIAL CHANGE

Turnover of the Group was approximately HK$38,156,000 for the three months ended 31 March 2010, which represented an increase of 566% when compared with the Group's turnover of approximately HK$5,730,000 for the three months ended 31 March 2009. The increase in sale was mainly due to the gradual recovery of the global economy in 2009 from the 2008 financial tsunami and the current economic conditions in China. The unaudited loss before income tax for the three months ended 31 March 2010 was approximately HK$13,452,000 while the unaudited loss before income tax for the three months ended 31 March 2009 was approximately HK$22,502,000. The loss attributable to owners of the Company was approximately HK$10,181,000 (three months ended 31 March 2009: loss of approximately HK$20,824,000). The improvement in loss for the three months ended 31 March 2010 was mainly attributable to the fact that the Company did not record any share of losses of associates and the Group recorded a significant increase in turnover during the three months ended 31 March 2010.

Save as disclosed above, the Directors are not aware of any material change in the financial or trading position or outlook of the Group since 31 December 2009, being the date to which the latest published audited consolidated financial statements of the Company were made up.

10. AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee chaired by Mr. Wan Tze Fan Terence ("Mr. Wan"), comprises two other members. Mr. Liu Weichang ("Mr. Liu") and Mr. Chung Chin Keung ("Mr. Chung"), who are independent non-executive Directors and their biographies are as follows:

Mr. Wan, aged 45, joined the Group in March 2004. Mr. Wan holds a bachelor degree in commerce and a master degree in business administration. Mr. Wan has years of experience in accounting and financial management. He had worked for international accounting firms and listed companies in Hong Kong. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and a Certified Practicing Accountants of CPA Australia. Currently, he is an executive director, financial controller and company secretary of Genesis Energy Holdings Limited, which is listed on the main board of the Stock Exchange.

Mr. Liu, aged 51, joined the Group in May 2005. Mr. Liu held a degree from Shenzhen University. He has over 26 years experience in the field of corporate management. Mr. Liu was a director and standing deputy general manager of two subsidiaries of China Travel International Investment Hong Kong Limited, a listed company in Hong Kong.

Mr. Chung, aged 43, joined the Group in February 2008. Mr. Chung holds a bachelor degree of Business Administration from the Hong Kong Baptist University and a master degree in Business Administration from Manchester Business School. Mr. Chung is a fellow member of The Association of Chartered Certified Accountants, a fellow member of The Hong Kong Institute of Certified Public Accountants, a fellow member of The Institute of Financial Consultants and an associate member of The Institute of Chartered Accountants in England and Wales. He has more than 17 years of experience in finance, accounting and management. Mr. Chung is currently the financial controller and company secretary of K.P.I. Company Limited, a company listed on the main board of the Stock Exchange.

11. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) were entered into by members of the Group within the two years preceding the Latest Practicable Date and are or may be material:

(i) the underwriting agreement dated 24 June 2009 entered into between the Company as issuer and KGI Capital Asia Limited as underwriter in relation to the issue by way of rights of 4,098,677,600 new Shares in the proportion of one new Share for every two Shares at a price of HK$0.02 per new Share; and

(ii) the Agreement.

12. MISCELLANEOUS

(a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, and its head office and principal place of business in Hong Kong is at Suite 1415, Ocean Centre, 5 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong.

(b) The compliance officer of the Company is Mr. Wong Pui Yiu.

(c) The company secretary of the Company is Mr. Wong Chun Sing. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

(d) The address of Vinco Capital is Units 4909-4910, 49/F., The Center, 99 Queen's Road Central, Hong Kong.

(e) The Hong Kong branch share registrar of the Company is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(f) On 20 August 2009, an extraordinary general meeting was held to approve the consolidation of every ten the then existing issued and unissued ordinary shares of HK$0.00125 each in the share capital of the Company into one ordinary share of HK$0.0125 each in the share capital of the Company. Immediately after the share consolidation, the authorised share capital of the Company comprised 1,229,603,280 issued Shares of HK$0.0125 each and 8,370,396,720 unissued Shares of HK$0.0125 each. Save for the share consolidation, there has been no re-organisation of capital of the Company during the 2 financial years preceding the date of the Announcement.

(g) Dividends in a total amount of HK$9,527,600 have been paid out by the Company once in December 2009 to holder of the Repurchase Shares during the 2 years period immediately preceding the date of the Announcement. Save for the requirement under the terms of the Preferred Shares, the Company does not have any specific dividend policy. The Company had recorded losses for the two financial years ended 31 December 2009 and 2008. The Company is not in a position to pay dividends other than the dividends in respect of the Repurchase Shares and does not have any plan to alter dividend policy.

(h) The English texts of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. on any weekday except Saturdays, Sundays and public holidays at the principal place of business of the Company from the date of this circular up to and including the date of the EGM, and will be displayed on the website of the Company at http://china-p-res.etnet.com.hk and the website of the Securities and Futures Commission at www.sfc.hk:

(i) the memorandum of association and Articles of the Company;

(ii) the annual reports of the Company for the three years ended 31 December 2007, 2008 and 2009;

(iii) the letter from the Independent Board Committee, the text of which is set out on page 23 of this circular;

(iv) the letter from Vinco Capital, the text of which is set out on pages 24 to 37 of this circular;

(v) the report from BDO Limited in respect of the unaudited pro forma financial information on the Remaining Group, the text of which is set out in Appendix II to this circular;

(vi) the report from BDO Limited in respect of the accountants' report on the Group, the text of which is set out in Appendix III to this circular;

(vii) the written consents referred to under the paragraph headed "Experts and consents" in this appendix;

(viii) the material contracts (including the Agreement which contains, among others, the terms and conditions of the Share Repurchase) referred to in the paragraph headed "Material contracts" in this appendix; and

(ix) this circular.

The Agreement as referred to item (viii) above will also be made available for inspection at the EGM.

中國基礎資源控股有限公司
CHINA PRIMARY RESOURCES HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8117)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of China Primary Resources Holdings Limited (the "**Company**") will be held at Suite 1415, Ocean Centre, 5 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong on Monday, 28 June 2010 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions with or without amendments as resolutions of the Company:

RESOLUTIONS

1. "**THAT**

(a) the conditional agreement (the "**Agreement**") dated 9 April 2010 entered into among 宜昌首控實業有限公司 (Yichang Shoukong Industries Co., Limited) (a wholly-owned subsidiary of the Company) and 首鋼控股有限責任公司 (Shougang Holdings Limited Liability Company) in relation to, among other matters, (i) the proposed disposal (the "**Disposal**") of 12.21% interest in the registered paid up capital of 新首鋼資源控股有限公司 (Xin Shougang Zi Yuan Holdings Limited) at the aggregate consideration of HK$314,800,000; and (ii) the proposed repurchase and cancellation (the "**Share Repurchase**") of the 2,802,235,294 preferred shares (the "**Repurchase Shares**") of HK$0.00125 each in the share capital of the Company by the Company from Great Ocean Real Estate Limited at the proposed aggregate repurchase price of HK$289,460,000 (equivalent to approximately HK$0.1033 per Repurchase Share) in consideration the Disposal, which constitutes an off-market share repurchase by the Company pursuant to Rule 2 of the Hong Kong Code on Share Repurchases (the "**Repurchase Code**"), (a copy of which is marked "A" and produced to the EGM and signed by the chairman of the EGM for identification purpose) be and is hereby ratified, confirmed and approved and the directors (the "**Directors**") of the Company be and are hereby authorised to do all such acts and things and execute all such documents which they consider necessary, desirable or expedient for the implementation of and giving effect to the Agreement and the transactions contemplated thereunder;

(b) the Disposal and the transactions contemplated thereunder be and is hereby approved and any Director be and is hereby authorised to take all steps necessary, desirable or expedient in his opinion to implement or give effect to the Disposal and the transactions contemplated thereunder; and

(c) the Share Repurchase and the transactions contemplated thereunder be and is hereby approved and any Director be and is hereby authorised to take all steps necessary, desirable or expedient in his opinion to implement or give effect to the Share Repurchase and the transactions contemplated thereunder including, but not limited to, making payment out of the capital of the Company and/or other reserves of the Company available under the laws of Cayman Islands."

2. "**THAT**:

(a) subject to the passing of the resolution no.1, the authorised share capital of the Company be and is hereby diminished from HK$125,000,000 divided into 9,600,000,000 ordinary shares of HK$0.0125 each and 4,000,000,000 preferred shares of HK$0.00125 each to HK$120,000,000 divided into 9,600,000,000 ordinary shares of HK$0.0125 each by the cancellation of 4,000,000,000 preferred shares of HK$0.00125 each; and

(b) the directors of the Company be and are hereby authorised to do all other acts and things and execute all documents which they consider necessary, desirable or expedient for the implementation of and giving effect to the transactions contemplated under resolution 2(a) above."

By order of the Board
China Primary Resources Holdings Limited
MA Zheng
Chairman

Hong Kong, 8 June 2010

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

Head office and principal place of business in Hong Kong:
Suite 1415
Ocean Centre
5 Canton Road
Tsim Sha Tsui
Kowloon
Hong Kong

Notes:

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote in his/her stead. A proxy needs not be a member of the Company.

2. In order to be valid, the form of proxy must be duly lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is duly signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or any adjourned meeting.

3. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish, and in such event, the form of proxy shall be deemed to be revoked.