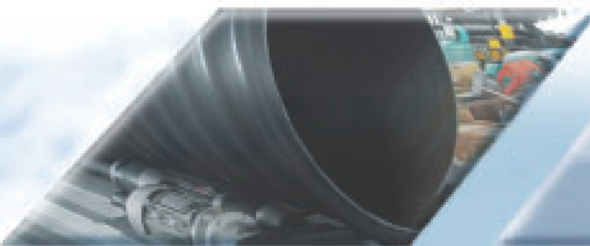
ANNUAL REPORT 2009



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)

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

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

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

This annual report, for which the directors (the "Directors") of CHINA PRIMARY RESOURCES HOLDINGS LIMITED (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (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 annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

Expressed in Hong Kong dollars ("HK$")

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

Board of directors

Executive Directors

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

Independent Non-Executive Directors

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

Registered office, head office and principal place of business

Registered office

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

Head office and principal place of business

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

Company secretary

Mr. Wong Chun Sing

Compliance officer

Mr. Wong Pui Yiu

Audit committee

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

Remuneration committee

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

Authorised representatives

Ms. Ma Zheng
Mr. Wong Pui Yiu

Principal bankers

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

Share registrar and transfer office

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

Stock code

8117

Cayman Islands assistant secretary

Codan Trust Company (Cayman) Limited

Auditors

BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Hong Kong share registrar

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

Chairman's Statement

It is my pleasure to present the annual results of China Primary Resources Holdings Limited (the "Company") together with its subsidiaries (collectively referred to as the "Group"), for the year ended 31 December 2009.

2009 was a year of recovery and preparation. After the financial tsunami broke out in the second half of the year 2008, like most of the other enterprises, the Group's performance was affected by the drastic economic down turn. The Company identified that in order to cope with the economic rebound, the Group should be well-prepared. As a result, in 2009, the Group was restructuring its financial position and preparing for the global economic recovery.

Production and sale of fibre glass reinforced plastic pipes ("FRP Pipes") and polyethylene pipes ("PE Pipes") and sale of composite materials were still the core businesses of the Group in the year 2009. However, as affected by the impact of the financial tsunami in 2008, the turnover of the Group fell by 46.8% to approximately HK$38,712,000 in 2009. The Group will continue to closely monitor the pipes business and such business will continue to contribute substantial turnover to the Group.

For the mining sector, during the year under review, the Group's shareholding in Xin Shougang Zi Yuan Holdings Limited ("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. Such investment is now classified as available-for-sale investments. As a result of the dilution of interest in Xin Shougang, the Group recorded significant provisions for impairment losses on the available-for-sale investments for the year ended 31 December 2009.

For the mine located in the independent sovereign state of Mongolia, preparation for the commencement of mining operation is in progress. The management will carefully monitor and consider the mining operations for the benefit of the Company and its shareholders.

The current major challenge faced by the Group is to find a solution to settle the convertible bonds with Lehman Brothers Commercial Corporation Asia Limited (In Liquidation) ("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.

Other than the above, the issue by way of rights of 4,098,677,600 rights shares (the "Rights Shares") 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 the future development and expansion of the foregoing PE Pipes and FRP Pipes production business in the PRC.

Mostly as a result of further impairment loss on the Group's investment in Xin Shougang, the Group recorded a loss before income tax of approximately HK$868,389,000 for the year ended 31 December 2009.

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

Appreciation

On behalf of the Board of Directors, I would like to express my sincere gratitude to our shareholders, fellow directors, staff, customers and business partners for their ongoing support and contributions, especially during such difficult moment. 2010 is obviously another challenging year but, with the strong commitment and contribution from all of you, I believe the Group can overcome the difficulties resulting from the financial tsunami.

MA Zheng
Chairman

Hong Kong, 29 March 2010

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. 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 Polyethylene Pipes ("PE Pipes") and Fibre Glass Reinforced Plastic Pipes ("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 Zi Yuan Holdings Limited ("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.

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.

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, 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.

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.

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.

Directors

Ms. Ma Zheng, aged 43

Chairman and Executive Director

Ms. Ma joined the Group in February 2004. She is currently the general manager of Shenzhen Zhi Xin Da Investment Development Co. Limited (深圳智信達投資發展有限公司) which is a private investment and development company. Ms. Ma has over 20 years of experience in international trade, electronic industry and corporation management. She graduated from Wuhan University (武漢大學) majoring in construction structure engineering.

Mr. Wong Pui Yiu, aged 47

Executive Director

Mr. Wong joined the Group in February 2008. He has over 9 years of experience in business administration and corporate management. He is currently the general manager of Smart Honest Group Limited which has been a distributor of semiconductors since 2004.

Mr. Wan Tze Fan Terence, aged 45

Independent Non-executive Director

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

Mr. Liu Weichang, aged 51

Independent Non-executive Director

Mr. Liu 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 is the director and standing deputy general manager of two subsidiaries of a listed company in Hong Kong.

Mr. Chung Chin Keung, aged 42

Independent Non-executive Director

Mr. Chung joined the Group in February 2008. Mr. Chung holds a bachelor degree of Business Administration from the Hong Kong Baptist University and a master degree in Business Administration from Manchester Business School. Mr. Chung is a fellow member of The Association of Chartered Certified Accountants, a fellow member of The Hong Kong Institute of Certified Public Accountants, a fellow member of The Institute of Financial Consultants and an associate member of The Institute of Chartered Accountants in England and Wales. He has more than 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 of Hong Kong Limited.

Senior management

Mr. Wong Chun Sing, Max, aged 39

Financial Controller and Company Secretary

Mr. Wong joined the Group in April 2008. Mr. Wong is a fellow member of The Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Wong has over 16 years of management experiences in the accounting and finance sector and he had worked for an international accounting firm, a listed company and securities and finance companies in Hong Kong.

(A) Corporate governance practices

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

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

(B) Directors' securities transactions

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

(C) Board of directors

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

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

There were 19 board meetings held during the year. The attendance of individual directors at the board meetings is set out below.

Board Member	**Attendance**
Executive Directors	
Ms. Ma Zheng, Chairman	19/19
Mr. Wong Pui Yiu	19/19
Independent Non-Executive Directors	
Mr. Wan Tze Fan Terence	10/19
Mr. Liu Weichang	13/19
Mr. Chung Chin Keung	13/19

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

During the year, there was no conflict of interest in any matters with the substantial shareholders and Directors of the Company. In addition, if the Board considers a director to be having a conflict of interest, that director will be required to abstain from voting.

(D) *Chairman and chief executive officer*

For the year 2009, we still did not have an officer with the title of "Chief Executive Officer" ("CEO"). The Code envisages that the management of the Board should rest with the Chairman, whereas the day-to-day management of the Company's business should rest with the CEO. Ms. Ma Zheng, the Chairman, is also a director of the Company's production plant in Yichang City. This constitutes a deviation of Code Provision A.2.1. The Board holds the view that this arrangement is appropriate for the Company but we do not compromise accountability and independent decision making for this since we have an audit committee, all members of which are independent non-executive directors, to help to ensure the accountability and independence of Ms. Ma Zheng.

(E) Appointment and re-election of directors

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

(F) Independent non-executive directors

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

(G) Remuneration of directors

The Board has established a remuneration committee with specific written terms of reference in compliance with the GEM Listing Rules. These terms of reference will be put on the Company's website once the site is ready for use. This constitutes a deviation of Code Provision B.1.4, however, once the website is ready, we will comply with this code at once. These terms of reference were already reviewed by all Directors before they were adopted. The remuneration committee comprises only of the independent non-executive Directors, namely Mr. Wan, Mr. Liu and Mr. Chung. Mr. Wan is the chairman of the remuneration committee. The remuneration committee had held one meeting during 2009 and was attended by Mr. Wan, Mr. Liu and Mr. Chung. The role and function of the remuneration committee include determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration.

(H) Responsibilities of directors

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

(I) Nomination of directors

During the year under review, no new Board member was nominated. However, the determination of the candidate's appointment rests with the Board, and it is the practice of the Company to have at least 50 per cent attendance of the Board members, with at least one of independent non-executive director, to review and consider the acceptance of a new Board member. This will ensure the involvement of the majority of the members of the Board, with the opinion of the independent non-executive director, in considering the new member's application. The Board considers this practice is fair and reasonable. In addition, the Board also made recommendations for the rotation of Directors for the forthcoming annual general meeting ("AGM"). As the Board believes the current practice of appointment of directors as proper and appropriate for the Company, it does not wish to set up a nomination committee which is not in compliance with the recommended best practices of the CG Code.

(J) Audit committee

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

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

Member	Attendance
Mr. Wan Tze Fan Terence	3/4
Mr. Liu Weichang	4/4
Mr. Chung Chin Keung	4/4

The audit committee is satisfied with their review of the audit fees and audit process and has recommended the Board to re-appoint the existing auditors for 2010 at the forthcoming AGM.

The Group's 2009 annual report, 2009 quarterly reports and 2009 half-yearly report had been reviewed by the audit committee.

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

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2009.

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

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

The statement of the external auditors of the Company about his reporting responsibilities on the financial statements is set out in the Independent auditors' report on pages 33 to 35.

(K) Auditors' remuneration

The audit committee of the Company is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non-audit functions can lead to any potential material adverse effect on the Company. During the year under review, an amount of approximately HK$680,000 (2008: approximately HK$720,000) was charged to the Group's income statement for the year ended 31 December 2009 for service fees payable to the external auditors.

(L) Internal control

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

(M) Investor relations

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

The directors herein present their report and the audited financial statements for the year ended 31 December 2009.

Principal activities

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

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

Results and appropriations

The results of the Group for the year ended 31 December 2009 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 36 to 119.

The Board do not recommend the payment of any dividend.

Share capital

Details of the movements in share capital of the Company during the year are set out in Note 29 to the financial statements.

Reserves

Details of the movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and Note 31 to the financial statements, respectively.

Distributable reserves

As at 31 December 2009, the Company did not have any reserves available for distribution according to the Companies Law (2001 Revision) of the Cayman Islands (2008: HK$45,803,000).

Property, plant and equipment

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

Pre-emptive rights

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

Financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 120 and 121.

Purchase, sale or redemption of securities

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

Directors

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

Executive Directors

Ms. Ma Zheng
Mr. Wong Pui Yiu

Independent Non-Executive Directors

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

In accordance with article 87(1) of the Company's Articles of Association, Mr. Wong Pui Yiu and Mr. Chung Chin Keung, being eligible, will offer themselves for re-election at the forthcoming AGM. All other remaining directors will continue in office.

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

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

Biographical details of directors and senior management

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

Directors' service contracts

Ms. Ma Zheng and Mr. Wong Pui Yiu, both executive directors, have entered into service contracts with the Company for a term of two years commenced on 1 January 2010 and 1 February 2010 respectively and are subject to termination by either party giving not less than three months' written notice. These two service contracts are exempt from the shareholders' approval requirement under Rule 17.90 of the GEM Listing Rules of the Stock Exchange.

Independence of independent non-executive directors

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

Directors' interests

Save as disclosed in Note 36 to the financial statements, no contract of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As at 31 December 2009, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

The approximate percentage of interest set out below is based on 1,229,603,280 ordinary shares in issue as at 31 December 2009, not on the total number of issued shares upon full conversion or exercise of (i) the convertible bonds (the "Convertible Bonds") issued to Lehman Brothers Commercial Corporation Asia Limited ("Lehman Brothers") (in liquidation) pursuant to the conditional subscription agreement dated 12 June 2007, (ii) the preferred shares issued to Great Ocean Real Estate Limited ("GORE") (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 31 December 2009:

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

Notes:

1. Ms. Ma Zheng is holding 12.5% of the equity interest of Future Advance Holdings Limited ("Future Advance") and Future Advance beneficially owned 23.39% of the equity interest of the Company. In addition, Ms. Ma Zheng is an executive director of the Company and the sole director of Future Advance.

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 21 August 2009.

(ii) Long position in the underlying shares or debentures of the Company as at 31 December 2009:

Name of Directors	Type of interests	Description of securities	Number of underlying shares	Approximate percentage of interests
Ms. Ma Zheng	Beneficial	Share Option (Note 1)	2,512,000	0.20%
Mr. Liu Weichang	Beneficial	Share Option (Note 2)	376,800	0.03%
Mr. Wan Tze Fan Terence	Beneficial	Share Option (Note 3)	376,800	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 31 December 2009, none of the directors and chief executive of the Company had any other interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations, within the meaning of Part XV of the SFO required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Share option

On 17 March 2004, the Company forfeited all the outstanding share options granted from a Pre-IPO share option scheme (the "Pre-Scheme") adopted by the Company on 28 November 2001, and that all outstanding share options granted from the Pre-Scheme were cancelled and extinguished. Further details are set out in the announcement dated 17 March 2004. As at 31 December 2009, there were no share options outstanding under the Pre-Scheme.

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

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

As at 31 December 2009, the Company had granted share options under the Post-Scheme to subscribe for 857,000,000 shares, of which 176,000,000 options were exercised, no options were cancelled, 95,000,000 options were lapsed and 586,000,000 options (which was adjusted to 73,601,600 options upon the Rights Issue and Share Consolidation) remain outstanding and not yet exercised. The total number of shares in respect of which options may be granted under the Post-Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of approval of the Post-Scheme, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

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

Details of the share options granted by the Company pursuant to the Post-Scheme and the options as at 31 December 2009 were as follows:

Grantees	Date granted	Balance as at 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	Adjusted during the year (Note)	Balance as at 31 December 2009 (Note)	Period during which the options are exercisable	Exercise price per share (Note)
Ms. Ma Zheng *(Director)*	8 January 2008	20,000,000	–	–	–	(17,488,000)	2,512,000	8 July 2008 to 27 November 2011	HK$1.752
Mr. Wan Tze Fan Terence *(Director)*	8 January 2008	3,000,000	–	–	–	(2,623,200)	376,800	8 July 2008 to 27 November 2011	HK$1.752
Mr. Liu Weichang *(Director)*	8 January 2008	3,000,000	–	–	–	(2,623,200)	376,800	8 July 2008 to 27 November 2011	HK$1.752
Employees	8 January 2008	560,000,000	–	–	–	(489,664,000)	70,336,000	8 July 2008 to 27 November 2011	HK$1.752
		586,000,000	–	–	–	(512,398,400)	73,601,600		

Note: The number of share options and exercise price have been adjusted after the Rights Issue and Share Consolidation.

Notes:

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

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

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

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

4. As at 31 December 2009, there were 73,601,600 share options outstanding.

No share options were granted by the Company and no share options were exercised or lapsed during the year.

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

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2009, the Company had been notified that the following substantial shareholders having the following interests and short positions, being 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, in the Company. These interests are shown in addition to those disclosed above in respect of the directors and chief executives:

The approximate percentage of interest set out below is based on 1,229,603,280 ordinary shares in issue as at 31 December 2009, not on the total number of issued shares upon full conversion or exercise of (i) the Convertible Bonds issued to Lehman Brothers (in liquidation) pursuant to the conditional subscription agreement dated 12 June 2007, (ii) the Preferred Shares issued to GORE 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 31 December 2009:

Name of shareholders	**Type of interests**	**Number of the 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	129,436,878	10.53%
Super Grand Investments Limited ("Super Grand")	Beneficial (Note 2)	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) Long position in the underlying shares or debentures of the Company as at 31 December 2009:

Name	Type of interests	Description of derivatives	Number of underlying shares	Approximate percentage of interests
Lehman Brothers Holdings Inc. (in bankruptcy)	Beneficial	Convertible Bonds (Notes 1 & 3)	184,733,481	15.02%
Great Ocean Real Estate Limited	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 underlying shares are held by Lehman Brothers (in liquidation), the ultimate beneficial owner of which is Lehman Brothers Holdings Inc. (in bankruptcy). The total number of shares to which Lehman Brothers are entitled under the Convertible Bonds has taken into account the existing issued share capital of the Company and all outstanding securities which may be convertible into or carry rights to subscribe for new shares. Based on the existing issued share capital and exercise in full of all other securities carrying rights to subscribe for new shares including warrants and share options and other convertible securities convertible into new shares of the Company outstanding as at 31 December 2009, the maximum number of new shares to be issued upon full conversion of the Convertible Bonds is 184,733,481 shares, 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 31 December 2009, the directors are not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or who had an interest, directly or indirectly, in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or any other substantial shareholders whose interests or short position were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Directors' rights to acquire shares

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

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 62% of the total sales for the year, and sales to the largest customer included therein amounted to approximately 28%.

Purchases from the Group's largest supplier accounted for approximately 40% of the total purchases for the year and the five largest suppliers accounted for approximately 79% of the Group's total purchases for the year.

None of the Company's directors or their respective associates (as defined in the GEM Listing Rules) or the existing shareholders, which, to the knowledge of the directors of the Company, holding more than 5% of the Company's issued share capital, had any interests in the Group's five largest customers or suppliers at any time during 2009.

Code on corporate governance practices

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

Audit committee

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, Mr. Wan Tze Fan Terence, Mr. Liu Weichang and Mr. Chung Chin Keung who are the independent non-executive directors of the Company. During the year, the audit committee of the Company (the "Audit Committee") held four meetings and performed duties including reviewing the Group's annual report, half-yearly report, quarterly reports and announcements. After reviewing the Group's financial statements for the year ended 31 December 2009, the Audit Committee is of the opinion that the financial statements of the Company and the Group for the year ended 31 December 2009 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

Remuneration committee

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

Connected and related party transactions

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

Competition and conflict of interests

Mr. Yu Hongzhi, the director of the Company's subsidiary 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 under review. Save as disclosed above, as at 31 December 2009, none of the Directors, management, shareholders, substantial shareholders and any of their respective associates has engaged in any business that competes or may compete directly or indirectly, with the business of the Group, or has or may have any other conflicts of interest with the Group during the year ended 31 December 2009.

Sufficiency of public float

The Company has maintained sufficient public float throughout the year ended 31 December 2009.

Contingent liabilities

As at 31 December 2009, the directors of the Company were not aware of any material contingent liabilities.

Subsequent events

Subsequent to 31 December 2009, the Group does not have significant post balance sheet event.

Auditors

During the year under review, Shu Lun Pan Horwath Hong Kong CPA Limited, the previous retired auditors of the Company, had changed its name to Shu Lun Pan Hong Kong CPA Limited ("SLPHK") and thereafter it had merged their business with BDO McCabe Lo Limited on 1 May 2009. On the same date, BDO McCabe Lo Limited had changed their name to BDO Limited. On 26 May 2009, BDO Limited was appointed as the auditors of the Company to replace the retired auditors, SLPHK.

The financial statements have been audited by BDO Limited who will retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as the auditors of the Company.

On behalf of the Board

Ma Zheng
Chairman

Hong Kong, 29 March 2010

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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

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)

The accompanying notes form part of these financial statements.

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)

The accompanying notes form part of these financial statements.

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

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2009
(Expressed in Hong Kong dollars)

	Notes	2009 HK$'000	2008 HK$'000
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

These financial statements were approved and authorised for issue by the board of directors on 29 March 2010.

Ma Zheng
Director

Wong Pui Yiu
Director

The accompanying notes form part of these financial statements.

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

Statement of Financial Position

AS AT 31 DECEMBER 2009
(Expressed in Hong Kong dollars)

	Notes	2009 HK$'000	2008 HK$'000
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

These financial statements were approved and authorised for issue by the board of directors on 29 March 2010.

Ma Zheng
Director

Wong Pui Yiu
Director

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2009
(Expressed in Hong Kong dollars)

		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)/ retained profits**	**Minority interests**	**Total equity**
	HK$'000	HK$'000 (Note a)	HK$'000 (Note 26)	HK$'000 (Note 30)	HK$'000 (Note b)	HK$'000 (Note 28)	HK$'000 (Note c)	HK$'000 (Note d)	HK$'000	HK$'000	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

The accompanying notes form part of these financial statements.

Notes:

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

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

The accompanying notes form part of these financial statements.

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)

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2009
(Expressed in Hong Kong dollars)

	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

The accompanying notes form part of these financial statements.

(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

(Expressed in Hong Kong dollars)

2. *Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") (continued)*

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)

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

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.

3. *Principal accounting policies (continued)*

(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.

3. *Principal accounting policies (continued)*

(b) Basis of preparation of financial statements *(continued)*

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.

3. *Principal accounting policies (continued)*

(c) Basis of consolidation *(continued)*

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.

3. *Principal accounting policies (continued)*

(e) Associates *(continued)*

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.

3. *Principal accounting policies (continued)*

(g) Property, plant and equipment *(continued)*

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.

3. *Principal accounting policies (continued)*

(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.

3. Principal accounting policies *(continued)*

(j) Impairment of assets excluding goodwill *(continued)*

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.

3. *Principal accounting policies (continued)*

(l) Financial assets *(continued)*

(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.

3. *Principal accounting policies (continued)*

(l) Financial assets *(continued)*

(iii) Impairment of financial assets *(continued)*

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.

3. *Principal accounting policies (continued)*

(l) Financial assets *(continued)*

(iii) Impairment of financial assets *(continued)*

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.

3. *Principal accounting policies (continued)*

(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.

3. *Principal accounting policies (continued)*

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

(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.

3. *Principal accounting policies (continued)*

(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.

3. *Principal accounting policies (continued)*

(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.

3. *Principal accounting policies (continued)*

(q) Taxation *(continued)*

(ii) Deferred tax *(continued)*

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the 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.

3. *Principal accounting policies (continued)*

(r) Foreign currencies *(continued)*

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.

3. Principal accounting policies (continued)

(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.

3. *Principal accounting policies (continued)*

(t) Share-based payments *(continued)*

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.

3. *Principal accounting policies (continued)*

(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.

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

(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.

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

(f) Reserve estimates *(continued)*

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

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

(ii) Depreciation, depletion and amortisation charged in 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.

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

(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.

6. Segment reporting (continued)

(a) Business segments

	Manufacture and sale of PE/FRP pipes		Sale of composite materials		Mining operation		Consolidated	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'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**	–

6. *Segment reporting (continued)*

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

	2009	2008
	HK$'000	HK$'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	2008
	HK$'000	HK$'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	2008
	HK$'000	HK$'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)

6. *Segment reporting (continued)*

(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	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'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 HK$'000	2008 HK$'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 HK$'000	2008 HK$'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 **HK$'000**	2008 HK$'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, 宜昌富連江複合材料有限公司, a wholly-owned subsidiary of the Company, established as a wholly foreign-owned enterprise in the PRC, is entitled to an exemption from the PRC state and local corporate income tax ("CIT") for the first two profitable financial years of its operation and thereafter a 50% relief from the state CIT of the PRC for the following three financial years (the "Tax Holiday"). Upon expiry of the Tax Holiday, the usual PRC CIT rate is 25%. No provision for CIT has been made as the subsidiary sustained a loss during the current and prior years.

10. Income tax (continued)

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

	2009 **HK$'000**	2008 HK$'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 **HK$'000**	2008 HK$'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)

12. *Loss per share attributable to owners of the Company (continued)*

	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	2008
	HK$'000	HK$'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	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

14. *Directors' remuneration and five highest paid individuals (continued)*

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

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 HK$'000	Leasehold improvements HK$'000	Computer equipment HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Construction in progress HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 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.

(Expressed in Hong Kong dollars)

17. *Mining rights (continued)*

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).

18. Interests in associates (continued)

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 **HK$'000**	2008 HK$'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.

(Expressed in Hong Kong dollars)

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

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
宜昌富連江複合材料有限公司(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

(Expressed in Hong Kong dollars)

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

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

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
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.

26. Convertible bonds (continued)

(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.

26. Convertible bonds (continued)

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.

27. Deferred tax liabilities (continued)

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** HK$'000	**Liability component** HK$'000	**Total** 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.

28. Convertible preferred shares (continued)

The principal terms of the CPS are set out below:

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

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

(c) Holders of the CPS shall have the right to convert, at any time from the date of allotment of the CPS without payment of any additional consideration, into ordinary shares of 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.

30. Share options scheme (continued)

(b) (continued)

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	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2008	Rights issue during the year	Share consolid-ation 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		
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		

(Expressed in Hong Kong dollars)

30. Share options scheme (continued)

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

31. *Reserves (continued)*

Company *(continued)*

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*

宜昌新首鋼貴金屬礦業有限公司, 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.

34. *Operating lease arrangements (continued)*

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 **HK$'000**	2008 HK$'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.

38. Financial risk management (continued)

(b) Liquidity risk

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

The following table details the remaining contractual maturities at the 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

38. *Financial risk management (continued)*

(b) Liquidity risk *(continued)*

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).

38. Financial risk management (continued)

(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 %	**HK'000**	Effective interest rate %	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.

38. *Financial risk management (continued)*

(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 **HK$'000**	2008 HK$'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).

39. *Summary of financial assets and financial liabilities by category (continued)*

(b) *(continued)*

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

(Expressed in Hong Kong dollars)

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

Results

	Year ended 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**38,712**	72,770	31,826	34,806	24,614
Other income and gain	**539**	7,524	1,601	1,077	27,995
Operating expenses	**(66,870)**	(148,920)	(52,917)	(41,440)	(29,062)
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 losses of associates, net	**(10,282)**	(1,155,573)	1,139,370	–	–
Operating (loss)/profit	**(843,481)**	(1,336,903)	1,119,880	(5,557)	23,547
Finance costs	**(24,908)**	(25,330)	(4,494)	(301)	(159)
(Loss)/profit before income tax	**(868,389)**	(1,362,233)	1,115,386	(5,858)	23,388
Income tax credit/(charge)	**2,184**	63,236	272	(135)	(6)
Net (loss)/profit for the year	**(866,205)**	(1,298,997)	1,115,658	(5,993)	23,382

(Expressed in Hong Kong dollars)

Assets and Liabilities

	31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**886,049**	1,678,232	2,515,997	175,662	65,065
Total liabilities	**(477,866)**	(495,128)	(431,416)	(8,050)	(8,733)
	408,183	1,183,104	2,084,581	167,612	56,332