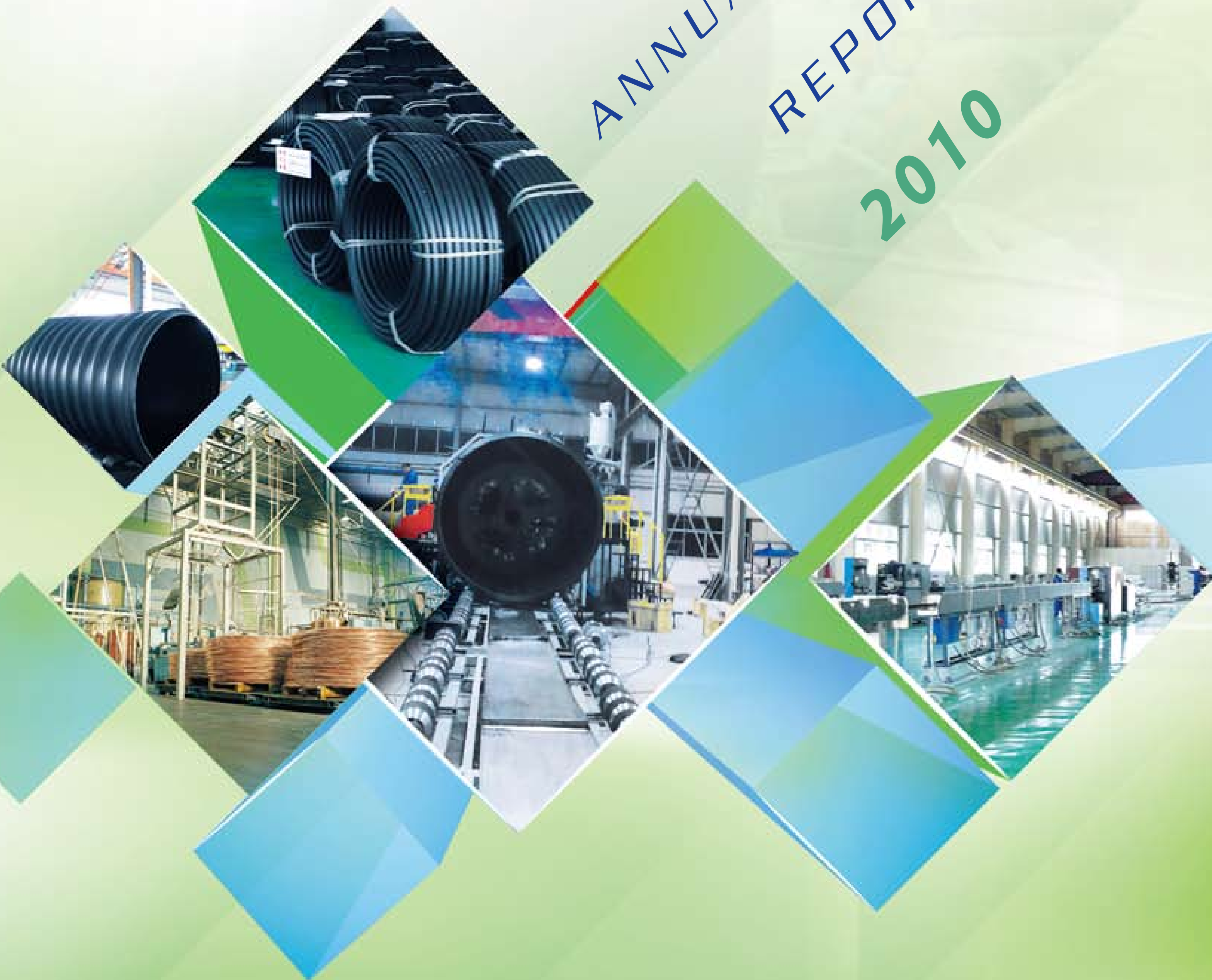
中國基礎資源控股有限公司
China Primary Resources Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 8117)

ANNUAL REPORT 2010



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.

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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 the information contained in this annual report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this annual report misleading.

Contents

Expressed in Hong Kong dollars ("HK$")

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

Wing Hang Bank, Limited
The Hongkong and Shanghai Banking Corporation 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

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 2010.

Results and Corporate Actions

2010 was an important year for the Group after a few years of uneasy time. With much effort and after more than a year's negotiation, the Company finally came out a settlement agreement with the holder of the convertible bonds. A deed of settlement was signed between the Company, Lehman Brothers Commercial Corporation Asia Limited ("Lehman Brothers") and its liquidators on 17 September 2010 (the "Deed of Settlement"). This signifies that the financial uncertainty and going concern problem of the Company are resolved. As a result, the Group will now concentrate its resources on its core business.

Production and sale of polyethylene pipes ("PE Pipes") and fibre glass reinforced plastic pipes ("FRP Pipes") and sale of composite materials were still the core businesses of the Group in the year 2010. Due to global economy rebounded in 2010, the turnover of the Group increased by 307.2% to approximately HK$157,651,000 in 2010. 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 12.21% interest in Xin Shougang Zi Yuan Holdings Limited ("Xin Shougang") was disposed. In view of the continue delay in commencement of the mining operation of Xin Shougang since its acquisition in 2007 and potential further dilution of the Group's interest, the directors (the "Directors") and shareholders (the "Shareholders") of the Company considered and agreed that such disposal will be beneficial to the Group. The disposal was completed in December 2010 and all the unlisted convertible preferred shares were cancelled at the same time.

On the other hand, the mine located in the independent sovereign state of Mongolia is yet to be disposed to Lehman Brothers under the Deed of Settlement. As a result, the Group ceased to have any investment in mine related business.

Future Development

With the repurchase and cancellation of the convertible preferred shares, disposal of the mine businesses and the redemption of the convertible bonds, I believe all uncertainty and adverse factors are removed and the Group can have a fresh start and brighter future.

Being 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 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 the 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. 2011 is obviously another challenging year but, with the strong commitment and contribution from all of you, I believe the Group can overcome any difficulty in the future.

MA Zheng
Chairman

Hong Kong, 23 March 2011

Operation review

After the financial tsunami in 2008, the global economy rebounded quickly in late 2009 and continued to grow in 2010. Most corporations had benefited from the economic growth in 2010. The ordinary business of the Group was performing much better when compare to 2009 and 2008. Most importantly, the Company has reached settlement on the convertible bonds issue with Lehman Brothers during 2010. The settlement represents a big step of the Group as the going concern problem of the Group is resolved. Although the Group still incurred operating loss in 2010, the Directors believes that the Group will perform much better in the near future.

The business segment of the PE Pipes and FRP Pipes was performing well in 2010 and was the main business of the Group in 2010. FRP Pipes have gradually been replaced by the PE Pipes. From 2011 onwards, PE Pipes will become the main products of the Group. 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 People's Republic of China (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 continued to engage in manufacture and sale of PE Pipes and FRP Pipes and sale of composite materials. The manufacture business is expected to improve its performance as the economy continues to grow.

Financial review

For the year ended 31 December 2010, the Group recorded a turnover of approximately HK$157,651,000, which represented an increase of 307.2% when compared with last year's turnover of approximately HK$38,712,000. Such increase in sale was mainly due to the improved economic conditions and also the more concentration of the Group's resources on the manufacture and sale of PE Pipes business upon the disposal of the mining investments.

During the year under review, the consolidated income statement composed of continuing operations and discontinued operations. The audited loss before tax of continuing operations was approximately HK$34,822,000 (2009: HK$39,476,000). Loss from discontinued operations was approximately HK$24,761,000 (2009: HK$827,546,000). The loss attributable to owners of the Company was approximately HK$57,170,000 (2009: HK$864,145,000). 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 the Shareholders.

The Disposal of available-for-sale investments

On 9 April 2010 (after trading hours), Yichang Shoukong Industries Co., Limited (宜昌首控實業有限公司) ("Yichang Shoukong"), a wholly-owned subsidiary of the Company, and 首鋼控股有限責任公司 (transliterated as Shougang Holdings Limited Liability Company) ("Shougang") entered into the agreement (the "Agreement") pursuant to which Yichang Shoukong has conditionally agreed to sell, and Shougang has conditionally agreed to purchase, the 12.21% equity interest ("Sale Interest 1") in the registered paid up capital of Xin Shougang at an aggregate consideration of HK$314.8 million (the "Disposal"). The consideration would be satisfied by Shougang as to HK$25.34 million by cash (or RMB22.28 million as agreed between the parties to the Agreement) and as to HK$289.46 million by way of procuring Great Ocean Real Estate Limited ("GORE") to transfer 2,802,235,294 unlisted preferred shares (the "Preferred Shares") (the non-voting redeemable convertible preferred share(s) of HK$0.00125 each in the then share capital of the Company carrying rights to convert into conversion share(s)) to the Company for repurchase ("Share Repurchase") and cancellation subject to the terms and upon fulfillment of the conditions of the Agreement.

With all conditions to the Agreement having been fulfilled, the Disposal and the Share Repurchase were completed on 2 December 2010 in accordance with the terms of the Agreement.

Since the completion of the sale of the Sale Interest 1 in accordance with the Agreement (the "Completion"), the Company does not hold any beneficial interest in Xin Shougang, and the repurchase shares, which represented all the Preferred Shares issued by the Company, have been cancelled. After the Completion, GORE ceased to hold any securities of the Company.

Details are set out in the announcements dated 22 April 2010, 12 November 2010 and 2 December 2010 and the circular dated 8 June 2010 of the Company.

Decrease in authorised share capital

As a result of the Share Repurchase, all the Preferred Shares in issue have been cancelled. In order to extinguish the Preferred Share class from the authorised share capital of the Company, the Board diminished the authorised share capital of the Company from HK$125,000,000 to HK$120,000,000 by the cancellation of 4,000,000,000 Preferred Shares of HK$0.00125 each in the authorised share capital of the Company (the "Authorised Share Capital Decrease"). As a result, the authorised share capital of the Company became HK$120,000,000 divided into 9,600,000,000 Shares of HK$0.0125 each. The Authorised Share Capital Decrease was passed as an ordinary resolution by the Shareholders by way of poll at the extraordinary general meeting held on 28 June 2010. With all conditions to the Agreement having been fulfilled, the Disposal and the Share Repurchase were completed on 2 December 2010 in accordance with the terms of the Agreement.

Details are set out in the announcements dated 22 April 2010 and 2 December 2010 and the circular dated 8 June 2010 of the Company.

Deed of Settlement and the disposal of subsidiaries

On 17 September 2010, the Company, Lehman Brothers (as Bondholder) and the joint and several liquidators of Lehman Brothers appointed by the order of the Court of First Instance of Hong Kong (the "Liquidators") signed the Deed of Settlement for the redemption of the 4.5% convertible bonds of the Company in the principal amount of HK$246,250,000 issued by the Company to Lehman Brothers pursuant to the subscription agreement dated 12 June 2007 (the "Convertible Bonds").

Pursuant to the Deed of Settlement, the Company shall pay to the Bondholder a sum of HK$85 million in November 2010 and transfer the Sale Interest 2 (as defined below) to the Bondholder or any third party as directed by the Bondholder.

The Sale Interest 2 represents 100% of the issued share capital of Zhong Ping Resources Holdings Limited ("Zhong Ping") (being the holder of the 70% equity interest in ARIA LLC ("ARIA"), a company incorporated in Mongolia with limited liability), or, at the sole and absolute discretion of the Bondholder, all of the assets held directly or indirectly by Zhong Ping. Zhong Ping, through ARIA, holds the majority interest of the mining right in respect of the green field exploration project namely the Mungun-Undur Polymetallic Project (the "Project") located at Mungun-Undur, Khentii Province, Mongolia. The Project has prospects for silver, lead, zinc and tin mineralization.

Up to the date of this annual report, the completion of the Deed of Settlement and the disposal are still in progress and the Company will announce for any further development.

Details are set out in the announcements dated 27 September 2010 and 12 November 2010 and the circular dated 11 October 2010 of the Company.

The Subscription

On 17 September 2010, the Company and Mr. Yu Hongzhi entered into the subscription agreement (the "Subscription Agreement") pursuant to which the Company conditionally agreed to issue and Mr. Yu Hongzhi conditionally agreed to subscribe for a total of 570,000,000 subscription shares (the "Subscription Share(s)") at HK$0.08 per Subscription Share (the "Issue Price") under the subscription (the "Subscription"). The Subscription Shares represent approximately 46.4% of the then issued share capital of the Company; approximately 31.7% of the then issued share capital as enlarged by the issue of the Subscription Shares and approximately 23.6% of the then issued share capital as enlarged by the issue of the Subscription Shares and 614,801,640 new Shares (the "Offer Shares") offered to the Shareholders whose names appeared on the register of members of the Company on 27 October 2010 (the "Record Date") (the "Qualifying Shareholders") on the terms set out in the underwriting agreement (the "Underwriting Agreement") dated 17 September 2010 entered into between the Company and Mr. Yu Hongzhi, the underwriter, and in the prospectus dated 28 October 2010. The net proceeds of the Subscription were approximately HK$45.6 million. The Subscription and the issue of one Offer Share for every two Shares held on the Record Date at a price of HK$0.08 per Offer Share (the "Open Offer") were inter-conditional upon each other.

Details are set out in the announcements dated 27 September 2010 and 12 November 2010 and the circular dated 11 October 2010 of the Company.

The Open Offer

On 17 September 2010, the Company proposed to raise approximately HK$49.2 million before expenses by way of the Open Offer of 614,801,640 Offer Shares at a price of HK$0.08 per Offer Share.

The Open Offer was only available to the Qualifying Shareholders and such Qualifying Shareholders were not entitled to apply for any Offer Shares which were in excess of their assured entitlements. The Open Offer was not available to excluded Shareholders (those Overseas Shareholders whom the Directors, after making enquiries regarding the legal restrictions under the laws of the relevant places and the requirements of the relevant overseas regulatory bodies or stock exchanges in those places, consider it necessary or expedient to exclude them from the Open Offer).

A total of 266,674,137 Offer Shares were being applied for, representing approximately 43.38% of the total number of 614,801,640 Offer Shares offered under the Open Offer and approximately 11.05% of the enlarged issued share capital of the Company of 2,414,404,920 Shares immediately after completion of the Subscription and the Open Offer.

As a result of the under-subscription of the Offer Shares, Mr. Yu Hongzhi, the underwriter was obliged to subscribe for 348,127,503 Offer Shares that had not been validly subscribed for (the "Untaken Offer Shares").

The Company applied the majority of the net proceeds from the Subscription and the Open Offer for the payment under the Deed of Settlement and retained the balance as general working capital of the Group for future operation and development.

Details are set out in the announcements dated 27 September 2010 and 12 November 2010 and the circular dated 11 October 2010 of the Company.

Business outlook and prospects

The production of the PE Pipes and FRP Pipes was performing well in the year 2010. The Board of directors believe that this business segment will continue to grow and perform well. The Group has been building an effective sales team to explore new markets and find more customers for its products.

With the anticipated completion of the Deed of Settlement in 2011 and with the continue development of the pipes manufacturing business, the Group is targeting to become one of the largest PE Pipes manufacturers in the market.

Liquidity and financial resources

As at 31 December 2010, the net assets of the Group were approximately HK$390,012,000 (2009: HK$408,183,000) while its total assets were approximately HK$761,976,000 (2009: HK$886,049,000) including cash and bank balances of approximately HK$45,930,000 (2009: HK$76,071,000).

Funding activities during the year

Save as the Subscription and the Open Offer disclosed above, the Company did not carry out any fund raising activities during the year under review.

Gearing ratio

As at 31 December 2010, current assets of the Group amounted to approximately HK$567,693,000 which included cash of approximately HK$13,873,000 and RMB27,231,000 while current liabilities stood at approximately HK$342,375,000. Shareholders' funds amounted to approximately HK$356,107,000. In this regard, the Group was in a net assets position and had a gearing ratio of approximately 78.1% (net loan to equity attributable to owners of the Company) as of 31 December 2010.

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 the anticipated appreciation of RMB, the Group's foreign currency exposure was minimal for the year under review, except for certain materials purchases, 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

During the year under review, the Group has pledged buildings of approximately HK$42,940,000 and land use rights of approximately HK$32,053,000 to a PRC bank to obtain a short term loan. Save as disclosed, as at 31 December 2010, the Group did not have any significant contingent liabilities and no other assets of the Group were pledged (2009: Nil).

Segment information

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 7 to the financial statements.

Capital structure

The ordinary shares of the Company were initially listed on the GEM of the Stock Exchange on 13 December 2001. Immediately after the completion of the Subscription and the Open Offer, the issued share capital of the ordinary shares of the Company is now 2,414,404,920 shares of HK$0.0125 each. In 2010, all the 2,802,235,294 Preferred Shares were cancelled.

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

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

Significant investments

The Group had not made any significant investments for the year ended 31 December 2010.

Employee information

As at 31 December 2010, the Group had 5 full-time employees working in Hong Kong and 122 full-time employees working in the PRC. Total employees' remuneration for the year under review amounted to approximately HK$9,236,000. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Directors

Ms. Ma Zheng, aged 44

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 21 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 48

Executive Director

Mr. Wong joined the Group in February 2008. He has over 10 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 46

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 of Sino Oil and Gas Holdings Limited, which is listed on the main board of The Stock Exchange of Hong Kong Limited.

Mr. Liu Weichang, aged 52

Independent Non-executive Director

Mr. Liu joined the Group in May 2005. Mr. Liu held a degree from Shenzhen University. He has over 27 years experience in the field of corporate management. Mr. Liu was the director and standing deputy general manager of two subsidiaries of a listed company in Hong Kong.

Mr. Chung Chin Keung, aged 43

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 18 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 40

Financial Controller and Company Secretary

Mr. Wong joined the Group in April 2008. Mr. Wong holds a master degree in business administration. He 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 17 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 20 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	20/20
Mr. Wong Pui Yiu	20/20
Independent Non-Executive Directors	
Mr. Wan Tze Fan Terence	15/20
Mr. Liu Weichang	15/20
Mr. Chung Chin Keung	14/20

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 2010, 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 2010 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 website 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. Mr. Wan is the chairman of the audit committee.

The audit committee held 5 meetings during the year under review. Details of attendance of the audit committee meetings are as follows:

Member	Attendance
Mr. Wan Tze Fan Terence	5/5
Mr. Liu Weichang	5/5
Mr. Chung Chin Keung	4/5

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 2011 at the forthcoming AGM.

The Group's 2010 annual report, 2010 quarterly reports and 2010 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 2010.

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 36 and 37.

(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 (2009: approximately HK$680,000) was charged to the Group's income statement for the year ended 31 December 2010 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. In view of the immaterial change of the internal control system in 2010, the audit committee has assigned the finance department of the Company to review designated parts of the system and a report will be presented to the audit committee in due course. 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 2010.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in Note 20 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 7 to the financial statements.

Results and appropriations

The results of the Group for the year ended 31 December 2010 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 38 to 132.

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 31 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 33 to the financial statements, respectively.

Distributable reserves

As at 31 December 2010, the Company did not have any reserves available for distribution according to the Companies Law (2001 Revision) of the Cayman Islands (2009: Nil).

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 16 to the financial statements.

Pre-emptive rights

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

Financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 133.

Purchase, sale or redemption of securities

Other than the Share Repurchase, the Company had not redeemed any of its ordinary shares during the year. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's ordinary 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, Ms. Ma Zheng and Mr. Liu Weichang, 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 13 and 14.

Directors' service contracts

Ms. Ma Zheng and Mr. Wong Pui Yiu, both executive directors, have renewed their 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 38 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 2010, 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 2,414,404,920 ordinary shares in issue as at 31 December 2010, not on the total number of issued shares upon exercise of the 75,080,162 (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 2010:

	Number of ordinary shares held		
Name of Director	**Type of interests**	**Number of ordinary shares**	**Approximate percentage of interests**
Ms. Ma Zheng	Beneficial (Note 1)	12,150,000 (Note 2)	0.50%

Notes:

1. In addition to 12,150,000 shares held in her own name, Ms. Ma Zheng is holding 12.5% of the equity interest of Future Advance Holdings Limited ("Future Advance") and Future Advance beneficially owned 11.91% of the equity interest of the Company. For information purpose, Ms. Ma Zheng is an executive director of the Company and the sole director of Future Advance.

2. Ms. Ma Zheng was interested in 8,100,000 shares and 2,512,000 share options under the share option scheme adopted in compliance with Chapter 23 of the GEM Listing Rules immediately before the completion of the Open Offer. Ms. Ma Zheng subscribed for 4,050,000 Offer Shares under the Open Offer.

(ii) Long position in the underlying shares or debentures of the Company as at 31 December 2010:

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)	2,898,848	0.12%
Mr. Wan Tze Fan Terence	Beneficial	Share Option (Note 2)	434,827	0.02%
Mr. Liu Weichang	Beneficial	Share Option (Note 3)	434,827	0.02%

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 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 then exercise price of HK$0.22 per new Shares. After the completion of the rights issue and the share consolidation on 20 August 2009 and the Subscription and the Open Offer on 12 November 2010, the right to subscribe for new Shares and the subscription price of the share options have been adjusted to 2,898,848 and HK$1.5182 per new Share respectively.

2. On 8 January 2008, Mr. Wan Tze Fan Terence, an independent non-executive Director, had also been granted 3,000,000 share options under the existing share option scheme adopted in compliance with Chapter 23 of the GEM Listing Rules which carry rights to subscribe for 3,000,000 new Shares at the then exercise price of HK$0.22 per new Shares. After the completion of the rights issue and the share consolidation on 20 August 2009 and the Subscription and the Open Offer on 12 November 2010, the right to subscribe for new Shares and the subscription price of the share options have been adjusted to 434,827 and HK$1.5182 per new Share respectively.

3. On 8 January 2008, Mr. Liu Weichang, an independent non-executive Director, had also been granted 3,000,000 share options under the existing share option scheme adopted in compliance with Chapter 23 of the GEM Listing Rules which carry rights to subscribe for 3,000,000 new Shares at the then exercise price of HK$0.22 per new Shares. After the completion of the rights issue and the share consolidation on 20 August 2009 and the Subscription and the Open Offer on 12 November 2010, the right to subscribe for new Shares and the subscription price of the share options have been adjusted to 434,827 and HK$1.5182 per new Share respectively.

Save as disclosed above, as at 31 December 2010, 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 2010, 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 2010, 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 (before the completion of the subscription and the open offer on 12 November 2010) and 9,856,083 options were lapsed and 75,080,162 options (the number has been adjusted on 12 November 2010) 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 2010 were as follows:

Grantees	Date granted	Balance as at 1 January 2010	Granted during the year	Exercised during the year	Adjusted during the year (Note)	Lapsed during the year	Balance as at 31 December 2010 (Note)	Period during which the options are exercisable	Exercise price per share (Note)
Ms. Ma Zheng *(Director)*	8 January 2008	2,512,000	–	–	386,848	–	2,898,848	8 July 2008 to 27 November 2011	HK$1.5182
Mr. Wan Tze Fan Terence *(Director)*	8 January 2008	376,800	–	–	58,027	–	434,827	8 July 2008 to 27 November 2011	HK$1.5182
Mr. Liu Weichang *(Director)*	8 January 2008	376,800	–	–	58,027	–	434,827	8 July 2008 to 27 November 2011	HK$1.5182
Employees	8 January 2008	70,336,000	–	–	10,831,743	(9,856,083)	71,311,660	8 July 2008 to 27 November 2011	HK$1.5182
		73,601,600	–	–	11,334,645	(9,856,083)	75,080,162		

Note: The number of share options and exercise price have been adjusted after the Subscription and the Open Offer.

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 are as follows:

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

2. On 8 January 2008, a total of 681,000,000 share options were conditionally granted as to 20,000,000 share options (pursuant to the completion of the Subscription and the Open Offer, the number of share options has been adjusted to 2,898,848 on 12 November 2010) to Ms. Ma Zheng, executive director, 3,000,000 share options (pursuant to the completion of the Subscription and the Open Offer, the number of share options has been adjusted to 434,827 on 12 November 2010) to Mr. Wan Tze Fan Terence and 3,000,000 share options (pursuant to the completion of the Subscription and the Open Offer, the number of share options has been adjusted to 434,827 on 12 November 2010) 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 2010, there were 75,080,162 share options outstanding.

No share options were granted by the Company and no share options were exercised 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 2010, 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 2,414,404,920 ordinary shares in issue as at 31 December 2010, not on the total number of issued shares upon exercise of the 75,080,162 (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 2010:

Name of shareholders	**Type of interests**	**Number of the shares held**	**Approximate percentage of interests**
Future Advance Holdings Limited	Beneficial	287,619,446	11.91%
China Zong Heng Holdings Limited	Corporate (Note 1)	287,619,446	11.91%
Mr. Yu Hongzhi	Corporate (Note 1)	287,619,446	11.91%
	Beneficial (Note 2)	929,527,503	38.50%
	Subtotal:	1,217,146,949	50.41%
APAC Resources Limited	Corporate	129,436,878	5.36%
Super Grand Investments Limited ("Super Grand")	Beneficial (Note 3)	129,436,878	5.36%

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. Mr. Yu Hongzhi, the director of wholly-owned subsidiaries of the Company, was interested in 11,400,000 shares immediately before completion of the Subscription and the Open Offer. Pursuant to the Subscription Agreement, Mr. Yu Hongzhi subscribed for 570,000,000 Subscription Shares. Pursuant to the terms of the Open Offer and the Underwriting Agreement, Mr. Yu Hongzhi as the Underwriter, subscribed for 348,127,503 Untaken Offer Shares.

3. 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 2010:

Name	**Type of interests**	**Description of derivatives**	**Number of underlying shares can be converted**	**Approximate percentage of interests**
Lehman Brothers (in liquidation)	Beneficial	Convertible Bonds in the principal amount of HK$246,250,000	Nil (Note)	N/A

Note: Upon a literal interpretation of the terms of the Convertible Bonds and the Deed of Settlement, the conversion rights attached to the Convertible Bonds shall have expired after the original maturity date (i.e. 31 October 2010).

Save as disclosed above, as at 31 December 2010, 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 72% of the total sales for the year, and sales to the largest customer included therein amounted to approximately 34%.

Purchases from the Group's largest supplier accounted for approximately 36% of the total purchases for the year and the five largest suppliers accounted for approximately 94% 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 2010.

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 five 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 2010, the Audit Committee is of the opinion that the financial statements of the Company and the Group for the year ended 31 December 2010 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 related party transactions during the year are included in note 38 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, a substantial shareholder of the Company and a director of the Company's subsidiary, Yichang Fulianjiang Joint Composite Limited, is the director and legal representative of 宜昌弘訊管業有限公司(transliterated as Yichang HongXun Conduit and Calling Company Limited) ("Yichang HongXun"), 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 Yichang HongXun during the year under review. Save as disclosed above, none of the Directors, significant shareholders, substantial shareholders and any of their respective associates has been 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.

Sufficiency of public float

The Company has maintained sufficient public float throughout the year ended 31 December 2010.

Contingent liabilities

As at 31 December 2010, the directors of the Company were not aware of any material contingent liabilities.

Subsequent events

Subsequent to 31 December 2010, the Group does not have significant post balance sheet event.

Auditors

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, 23 March 2011

Tel : +852 2541 5041
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2541 5041
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

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

We have audited the consolidated financial statements of China Primary Resources Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 132, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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.

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 about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants

Shiu Hong NG
Practising Certificate Number: P03752

Hong Kong, 23 March 2011

FOR THE YEAR ENDED 31 DECEMBER 2010
(Expressed in Hong Kong dollars)

	Notes	**2010 HK$'000**	2009 HK$'000
Continuing operations			
Turnover	6	**157,651**	38,712
Other income and gain	8	**159**	539
Cost of inventories sold		**(137,752)**	(33,110)
Staff costs, including directors' remuneration	14	**(8,000)**	(8,280)
Depreciation		**(3,242)**	(2,447)
Amortisation of land use rights	17	**(723)**	(698)
Other operating expenses		**(20,499)**	(14,048)
Finance costs	9	**(22,416)**	(20,144)
Loss before income tax	10(a)	**(34,822)**	(39,476)
Income tax credit	11(a)	**821**	817
Loss for the year from continuing operations		**(34,001)**	(38,659)
Discontinued operations			
Loss for the year from discontinued operations	10(b)	**(24,761)**	(827,546)
Loss for the year		**(58,762)**	(866,205)
Loss attributable to:			
Owners of the Company	12	**(57,170)**	(864,145)
Non-controlling interests		**(1,592)**	(2,060)
		(58,762)	(866,205)
Basic and diluted loss per share from continuing and discontinued operations (HK$)	13	**(0.042)**	(0.865)
from continuing operations (HK$)	13	**(0.025)**	(0.039)

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2010
(Expressed in Hong Kong dollars)

	2010 HK$'000	2009 HK$'000
Loss for the year	**(58,762)**	(866,205)
Other comprehensive income:		
Exchange differences on translation of foreign operations	**19,675**	(2,022)
Reclassification of translation differences upon disposal of available-for-sale investments	**(152,326)**	–
Exchange differences on translation of an associate	**–**	18,106
Other comprehensive income for the year	**(132,651)**	16,084
Total comprehensive income for the year	**(191,413)**	(850,121)
Total comprehensive income for the year attributable to:		
Owners of the Company	**(192,061)**	(845,037)
Non-controlling interests	**648**	(5,084)
	(191,413)	(850,121)

AS AT 31 DECEMBER 2010
(Expressed in Hong Kong dollars)

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	16	**154,720**	83,956
Land use rights	17	**31,330**	30,926
Mining rights	18	**–**	206,963
Available-for-sale investments	21	**–**	314,800
Deposits paid	22	**8,233**	57,231
Total non-current assets		**194,283**	693,876
Current assets			
Inventories	23	**24,466**	50,719
Trade and bills receivables	24	**53,517**	10,788
Other receivables, deposits and prepayments	22	**236,168**	54,550
Tax recoverable		**–**	45
Cash and cash equivalents	25	**45,930**	76,071
		360,081	192,173
Assets classified as held for sale	19	**207,612**	–
Total current assets		**567,693**	192,173
Total assets		**761,976**	886,049
Current liabilities			
Trade payables	26	**5,024**	2,512
Other payables and accruals		**13,463**	2,457
Convertible bonds	27	**246,250**	241,271
Bank borrowings	28	**77,698**	–
		342,435	246,240
Liabilities associated with assets classified as held for sale	19	**29,510**	–
Total current liabilities		**371,945**	246,240
Net current assets/(liabilities)		**195,748**	(54,067)
Total assets less current liabilities		**390,031**	639,809

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2010
(Expressed in Hong Kong dollars)

	Notes	2010 HK$'000	2009 HK$'000
Non-current liabilities			
Deferred tax liabilities	29	**19**	180,634
Convertible preferred shares	30	**–**	50,992
Total non-current liabilities		**19**	231,626
Total liabilities		**371,964**	477,866
NET ASSETS		**390,012**	408,183
Equity			
Share capital	31	**30,180**	15,370
Reserves		**325,927**	359,556
Equity attributable to owners of the Company		**356,107**	374,926
Non-controlling interests		**33,905**	33,257
TOTAL EQUITY		**390,012**	408,183

These financial statements were approved and authorised for issue by the board of directors on 23 March 2011.

Ma Zheng
Director

Wong Pui Yiu
Director

AS AT 31 DECEMBER 2010
(Expressed in Hong Kong dollars)

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Investments in subsidiaries	20	**314,211**	421,246
Amounts due from subsidiaries	20	**332,544**	515,763
Total non-current assets		**646,755**	937,009
Current assets			
Other receivables, deposits and prepayments		**85,195**	150
Amounts due from subsidiaries	20	**–**	6,500
Cash and cash equivalents	25	**10,228**	20,759
Total current assets		**95,423**	27,409
Total assets		**742,178**	964,418
Current liabilities			
Other payables and accruals		**10,552**	1,085
Amounts due to subsidiaries	20	**157,835**	157,873
Convertible bonds	27	**246,250**	241,271
Total current liabilities		**414,637**	400,229
Net current liabilities		**(319,214)**	(372,820)
Total assets less current liabilities		**327,541**	564,189
Non-current liabilities			
Deferred tax liabilities	29	**–**	149,613
Convertible preferred shares	30	**–**	50,992
Total non-current liabilities		**–**	200,605
Total liabilities		**414,637**	600,834
NET ASSETS		**327,541**	363,584
Equity			
Share capital	31	**30,180**	15,370
Reserves	33	**297,361**	348,214
TOTAL EQUITY		**327,541**	363,584

These financial statements were approved and authorised for issue by the board of directors on 23 March 2011.

Ma Zheng
Director

Wong Pui Yiu
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2010
(Expressed in Hong Kong dollars)

	Equity attributable to owners of the Company										
	Share capital HK$'000	Share premium account HK$'000 (Note a)	Convertible bonds reserve HK$'000 (Note 27)	Employee compen-sation reserve HK$'000 (Note 32)	Statutory surplus reserve HK$'000 (Note b)	Convertible preferred shares reserve HK$'000 (Note 30)	Warrants reserve HK$'000 (Note c)	Exchange translation reserve HK$'000 (Note d)	Accumulated losses HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2009	10,247	295,649	18,985	38,031	5,110	753,639	7,619	168,910	(153,427)	38,341	1,183,104
Loss for the year	–	–	–	–	–	–	–	–	(864,145)	(2,060)	(866,205)
Other comprehensive income	–	–	–	–	–	–	–	19,108	–	(3,024)	16,084
Total comprehensive income	–	–	–	–	–	–	–	19,108	(864,145)	(5,084)	(850,121)
Rights issue (Note 31(i))	5,123	76,850	–	–	–	–	–	–	–	–	81,973
Share issue expenses (Note 31(i))	–	(6,773)	–	–	–	–	–	–	–	–	(6,773)
Redemption of convertible bonds	–	–	(1,063)	–	–	–	–	–	1,063	–	–
Release upon lapse of warrants	–	–	–	–	–	–	(7,619)	–	7,619	–	–
Balance at 31 December 2009 and at 1 January 2010	15,370	365,726	17,922	38,031	5,110	753,639	–	188,018	(1,008,890)	33,257	408,183
Loss for the year	–	–	–	–	–	–	–	–	(57,170)	(1,592)	(58,762)
Other comprehensive income	–	–	–	–	–	–	–	(134,891)	–	2,240	(132,651)
Total comprehensive income	–	–	–	–	–	–	–	(134,891)	(57,170)	648	(191,413)
Open offer of shares (Note 31(iii))	7,685	41,499	–	–	–	–	–	–	–	–	49,184
Share issue expenses in relation to the open offer of shares (Note 31(iii))	–	(2,136)	–	–	–	–	–	–	–	–	(2,136)
Subscription of shares (Note 31(iv))	7,125	38,475	–	–	–	–	–	–	–	–	45,600
Lapse of share options	–	–	–	(4,413)	–	–	–	–	4,413	–	–
Repurchase and cancellation of convertible preferred shares	–	–	–	–	–	(753,639)	–	–	834,233	–	80,594
Balance at 31 December 2010	**30,180**	**443,564**	**17,922**	**33,618**	**5,110**	**–**	**–**	**53,127**	**(227,414)**	**33,905**	**390,012**

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 income 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 an independent third party. 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 a company connected with a shareholder of the Company who was interested in approximately 0.26% of the issued capital of the Company on that date. 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 4(q).

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2010
(Expressed in Hong Kong dollars)

	Notes	2010 HK$'000	2009 HK$'000
Operating activities			
Loss before income tax			
From continuing operations		**(34,822)**	(39,476)
From discontinued operations	10(b)	**(27,229)**	(828,913)
Adjustments for:			
Depreciation	16	**8,192**	4,618
Amortisation of land use rights	17	**723**	698
Amortisation of mining rights	18	**6,987**	8,090
Bank interest income	8	**(72)**	(125)
Imputed interest on convertible bonds	9	**19,693**	19,936
Imputed interest on convertible preferred shares	30	**4,367**	4,764
Interest on bank borrowings	9	**2,723**	–
Write-off of property, plant and equipment	10(a)	**–**	108
Gain on repurchase and cancellation of convertible preferred shares	10(b)	**(10,699)**	–
Loss on disposal of property, plant and equipment	10(a)	**2,802**	–
Loss on disposal of available-for-sale investments	10(b)	**26,495**	–
Impairment loss on available-for-sale investments	10(b)	**–**	805,580
Gain on deregistration of a subsidiary	8	**–**	(320)
Share of losses of an associate	10(b)	**–**	10,282
Operating loss before working capital changes		**(840)**	(14,758)
Decrease/(increase) in inventories		**26,253**	(41,627)
(Increase)/decrease in trade and bills receivables		**(42,729)**	34,293
Increase in other receivables, deposits and prepayments		**(181,640)**	(41,705)
Increase/(decrease) in trade payables		**2,512**	(666)
Increase/(decrease) in other payables and accruals		**2,027**	(12,139)
Effect of foreign exchange differences		**3,996**	(33)
Cash used in operations		**(190,421)**	(76,635)
Interest income received	8	**72**	125

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2010
(Expressed in Hong Kong dollars)

	Notes	2010 HK$'000	2009 HK$'000
Net cash used in operating activities		**(190,349)**	(76,510)
Investing activities			
Deposits paid for the construction of factory buildings		**(5,969)**	(31,343)
Refund of deposits in relation to a possible acquisition of an interest in a mining operation		**–**	65,574
Purchases of property, plant and equipment		**(22,710)**	(25,583)
Legal and professional fees paid for the repurchase and cancellation of convertible preferred shares		**(1,313)**	–
Proceeds from disposal of available-for-sale investments		**25,340**	–
Proceeds from disposal of property, plant and equipment		**982**	–
Deregistration of a subsidiary		**–**	(3,941)
Net cash (used in)/generated from investing activities		**(3,670)**	4,707
Financing activities			
Proceeds from rights issue	31(i)	**–**	81,973
Share issue expenses in relation to the rights issue	31(i)	**–**	(6,773)
Proceeds from open offer of shares	31(iii)	**49,184**	–
Share issue expenses in relation to the open offer of shares	31(iii)	**(2,136)**	–
Proceeds from subscription of shares	31(iv)	**45,600**	–
Proceeds from bank borrowings	28	**77,698**	–
Redemption of convertible bonds		**–**	(6,395)
Interest on convertible bonds		**(5,480)**	(11,050)
Interest on bank borrowings	9	**(2,723)**	–
Interest on convertible preferred shares		**–**	(9,528)
Net cash generated from financing activities		**162,143**	48,227
Net decrease in cash and cash equivalents		**(31,876)**	(23,576)
Cash and cash equivalents at beginning of year		**76,071**	99,361
Effect of foreign exchange rate changes		**1,736**	286
Cash and cash equivalents at end of year		**45,931**	76,071
Analysis of the balances of cash and cash equivalents			
Cash at bank and in hand		**45,931**	76,071

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 the manufacture and sale of Polyethylene ("PE")/Fibre Glass Reinforced Plastic ("FRP") pipes and mining businesses that operates primarily in the markets of the PRC and the independent sovereign state of Mongolia ("Mongolia"). The latter is operated through its available-for-sale investments. As set out in Note 19, the Group is in the process of disposing of this mining business to the holder of the Company's Convertible Bonds. The activities of the subsidiaries are set out in Note 20 to the financial statements.

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

(a) Adoption of new/revised HKFRSs

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

HKFRSs (Amendments)	Improvements to HKFRSs
Amendments to HKAS 39	Eligible Hedged Items
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Interpretation 17	Distribution of Non-cash Assets to Owners
HK Interpretation 5	Presentation of Financial Statements – Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause

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

(a) Adoption of new/revised HKFRSs *(Continued)*

Except as explained below, the adoption of these new/revised standards and interpretations has no significant impact on the Group's financial statements.

HKFRS 3 (Revised) – Business Combinations and HKAS 27(Revised) – Consolidated and Separate Financial Statements

The revised accounting policies are described in Note 4(a) to the financial statements, which are effective prospectively for business combinations effected in financial periods beginning on or after 1 July 2009. Changes in HKFRS 3 include the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The adoption of revised HKFRS 3 has had no impact to the financial statements as there has been no business combination transaction during the year.

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, accordingly, such transactions are recognised within equity. When control is lost and any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of revised HKAS 27 has had no impact on the current year.

(Expressed in Hong Kong dollars)

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

(a) Adoption of new/revised HKFRSs *(Continued)*

HKAS 17 (Amendments) – Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the statement of financial position. The amendment to HKAS 17 has removed such a requirement and requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The Group has reassessed the classification of unexpired leasehold land and as at 31 December 2010 and concluded that the classification of such leases as operating leases continues to be appropriate.

(b) New/revised HKFRSs that have been issued but are not yet effective

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 [1&2]
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments[1]
Amendments to HK(IFRIC) – Interpretation 14	Prepayments of a Minimum Funding Requirement[2]
HKAS 24 (Revised)	Related Party Disclosures[2]
Amendments to HKFRS 7	Disclosures – Transfer of Financial Assets[3]
HKFRS 9	Financial Instruments[4]

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

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

[1] Effective for annual periods beginning on or after 1 July 2010
[2] Effective for annual periods beginning on or after 1 January 2011
[3] Effective for annual periods beginning on or after 1 July 2011
[4] Effective for annual periods beginning on or after 1 January 2013

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs in the period of their initial application.

3. BASIS OF PREPARATION

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

(b) Basis of measurement

These financial statements have been prepared under the historical cost convention, as modified for the available-for-sale investments which are carried at fair value.

4. PRINCIPAL ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

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

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(a) Business combination and basis of consolidation *(Continued)*

Business combination from 1 January 2010

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Business combination and basis of consolidation *(Continued)*

Business combination from 1 January 2010 (Continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Business combination prior to 1 January 2010

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connected with business combinations were capitalised as part of the cost of the acquisition.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(a) Business combination and basis of consolidation *(Continued)*

Business combination prior to 1 January 2010 (Continued)

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make 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.

(b) 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.

(c) 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.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(c) 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.

(d) Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the aggregate of the fair value of consideration transferred, the amount recognised for non-controlling interest and the fair value of the Group's previously held equity interest in acquiree over the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other asset of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(d) Goodwill *(Continued)*

Where the fair value of the identifiable assets, liabilities and contingent liabilities acquired exceeds the aggregate of the fair value of consideration transferred, non-controlling interest and fair value of the Group's previously held interest in the acquiree, the excess is recognised in profit or loss, after re-assessment.

On the disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(e) 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 4(t). In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, 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%

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(e) Property, plant and equipment *(Continued)*

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.

(f) 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.

(g) 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.

(h) 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

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(h) Impairment of assets excluding goodwill *(Continued)*

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount to the extent 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.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, including an appropriate portion of overhead expenses, is assigned to inventories by the method most appropriate to the particular class of inventory, is calculated using weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sale.

(k) Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, are initially measured at fair value, plus transaction costs 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.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) 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.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(k) 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.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity investments are not reversed through profit or loss. Any subsequent increase in fair value of such assets is recognised directly in other comprehensive income.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(k) 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.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

(i) Classification as debt or equity

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

(ii) Equity instruments

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

(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.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

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

(iii) Compound instruments (Continued)

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

(iv) Other financial liabilities

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

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

(v) Derecognition of financial liabilities

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

(vi) Effective interest method

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

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Cash and cash equivalents

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

(n) Operating leases

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

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

(o) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the 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.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(o) Provisions *(Continued)*

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 do 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.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(p) Income tax

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. 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.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(p) Income tax *(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 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.

Income tax is recognised in profit or loss except when it relates to items recognised in other comprehensive income in which case the income tax is recognised in other comprehensive income.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(q) 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 ("HK$"), which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

Transactions and balances

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

Exchange differences on non-monetary items carried at fair value in respect of which gains or losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, the statement of financial positions of the Group's entities denominated in foreign currencies are translated into HK$ at the applicable rates of exchange ruling at the end of reporting period while income and expenses items are translated at an average rate for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. The resulting translation differences are recognised in other comprehensive income and accumulated in the exchange translation reserve. Exchange differences recognised in profit or loss of group entities' individual financial statements on translation of long-term monetary items forming part of the Group's net investment in foreign operations are reclassified to the exchange reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate at the end of reporting period. Exchange differences arising are recognised in the exchange reserve.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(r) Employees' benefits

(i) Short term benefits

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

(ii) Pension obligations

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

The employees of the Group's entities 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.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(s) Share-based payments

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

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

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

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

(t) Borrowing costs

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

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

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(u) Non-current assets held for sale and disposal group

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in profit or loss up to the date of disposal.

4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(v) Related parties

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

(w) Revenue recognition

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

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

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

(x) Contingent liabilities

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

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

5. 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) Carrying value of non-current assets and impairment of assets

Non-current assets, including property, plant and equipment and land use rights, are carried at cost less accumulated depreciation and amortisation, where appropriate, and impairment losses. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position. Details of the impairment in property, plant and equipment and land use rights are set out in Notes 16 and 17 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 20 to the financial statements.

5. *CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)*

(b) Impairment of trade and other receivables

The Group's management determines impairment of trade and other 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 trade and other receivables at the end of each reporting period.

(c) Net realisable value of inventories

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

(d) Reserve estimates

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

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

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(d) Reserve estimates *(Continued)*

(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.

(e) 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.

5. *CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)*

(f) 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.

6. *TURNOVER*

Turnover, which is also revenue, represents the sales value of goods supplied to customers. An analysis of the Group's turnover from its continuing operations is as follows:

	2010	2009
	HK$'000	HK$'000
Sale of PE/FRP pipes	**93,934**	29,780
Sale of composite materials	**63,717**	8,932
	157,651	38,712

7. 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 two reportable segments of continuing operations and one reportable segments of discontinued operation. 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 composite materials
– Mining operations

Segment assets exclude cash and cash equivalents 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 (2009: 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.

7. SEGMENT REPORTING (Continued)

(a) Business segments

For the year ended 31 December 2010

	Continuing operations			Discontinued operations	
	Manufacture and sale of PE/FRP pipes HK$'000	Sale of composite materials HK$'000	Total HK$'000	Mining operations HK$'000	Total HK$'000
Revenue from external customers	93,934	63,717	157,651	–	157,651
Inter-segment revenue	–	–	–	–	–
Reportable segment revenue	93,934	63,717	157,651	–	157,651
Reportable segment profit/(loss)	7,052	(4,103)	2,949	(24,761)	(21,812)
Reportable segment assets	320,227	100,764	420,991	207,612	628,603
Reportable segment liabilities	(85,220)	–	(85,220)	(29,510)	(114,730)
Other segment information:					
Interest income					72
Finance costs	–	–	–	(4,367)	(4,367)
Unallocated finance costs					(22,416)
Total finance costs					(26,783)
Depreciation	(7,441)	–	(7,441)	–	(7,441)
Unallocated depreciation					(751)
Total depreciation					(8,192)
Amortisation of land use rights	(723)	–	(723)	–	(723)
Amortisation of mining rights	–	–	–	(6,987)	(6,987)
Loss on disposal of property, plant and equipment	(2,802)	–	(2,802)	–	(2,802)
Loss on disposal of available-for-sale investments	–	–	–	(26,495)	(26,495)
Gain on repurchase and cancellation of convertible preferred shares	–	–	–	10,699	10,699
Income tax credit	–	–	–	2,468	2,468
Unallocated income tax credit					821
Total income tax credit					3,289
Additions to non-current assets	79,662	–	79,662	–	79,662
Unallocated additions to non-current assets					18
Total additions to non-current assets					79,680

7. SEGMENT REPORTING *(Continued)*

(a) Business segments *(Continued)*

For the year ended 31 December 2009

	Continuing operations			Discontinued operations	
	Manufacture and sale of PE/FRP pipes HK$'000	Sale of composite materials HK$'000	Total HK$'000	Mining operations HK$'000	Total HK$'000
Revenue from external customers	29,780	8,932	38,712	–	38,712
Inter-segment revenue	–	–	–	–	–
Reportable segment revenue	29,780	8,932	38,712	–	38,712
Reportable segment loss	(4,705)	(2,667)	(7,372)	(827,546)	(834,918)
Reportable segment assets	263,012	21,945	284,957	521,842	806,799
Reportable segment liabilities	(3,647)	–	(3,647)	(230,964)	(234,611)
Other segment information:					
Share of losses of an associate	–	–	–	(10,282)	(10,282)
Impairment loss on available-for-sale investments	–	–	–	(805,580)	(805,580)
Interest income					125
Finance costs	–	–	–	(4,764)	(4,764)
Unallocated finance costs					(20,144)
Total finance costs					(24,908)
Depreciation	(3,861)	–	(3,861)	(4)	(3,865)
Unallocated depreciation					(753)
Total depreciation					(4,618)
Amortisation of land use rights	(698)	–	(698)	–	(698)
Amortisation of mining rights	–	–	–	(8,090)	(8,090)
Income tax credit	–	–	–	1,367	1,367
Unallocated income tax credit					817
Total income tax credit					2,184
Additions to non-current assets	25,472	–	25,472	–	25,472
Unallocated additions to non-current assets					111
Total additions to non-current assets					25,583

7. SEGMENT REPORTING (Continued)

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

	2010 HK$'000	2009 HK$'000
Loss before income tax and discontinued operations		
Reportable segment loss	(21,812)	(834,918)
Segment loss from discontinued operations	24,761	827,546
Other income and gain	159	539
Corporate and other unallocated expenses	(15,514)	(12,499)
Finance costs	(22,416)	(20,144)
Consolidated loss before income tax from continuing operations	(34,822)	(39,476)

	2010 HK$'000	2009 HK$'000
Assets		
Reportable segment assets	420,991	284,957
Segment assets of discontinued operations	207,612	521,842
Cash and cash equivalents	45,930	76,071
Unallocated corporate assets	87,443	3,134
Tax recoverable	–	45
Consolidated total assets	761,976	886,049

7. SEGMENT REPORTING *(Continued)*

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

	2010	2009
	HK$'000	HK$'000
Liabilities		
Reportable segment liabilities	**(85,220)**	(3,647)
Segment liabilities of discontinued operations	**(29,510)**	(230,964)
Convertible bonds	**(246,250)**	(241,271)
Deferred tax liabilities	**(19)**	(840)
Unallocated corporate liabilities	**(10,965)**	(1,144)
Consolidated total liabilities	**(371,964)**	(477,866)

7. 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 (2009: 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:

	Continuing operations		Discontinued operations			
	The PRC		Mongolia		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**157,651**	38,712	**–**	–	**157,651**	38,712
Specified non-current assets	**194,250**	484,913	**–**	206,963 (Note)	**194,250**	691,876
Unallocated non-current assets					**33**	2,000
Total non-current assets					**194,283**	693,876

Note: As explained in Note 10(b), assets in Mongolia as at 31 December 2010 are included in assets classified as held for sale.

7. SEGMENT REPORTING (Continued)

(d) Information about major customers

For the year ended 31 December 2010, revenues from two customers in the sale of composite materials segment amounted to HK$47,092,000 and HK$16,625,000 respectively, and revenues from three customers in the manufacture and sale of PE/FRP pipes segment amounted to HK$18,267,000, HK$10,892,000 and HK$10,249,000 respectively. These customers had contributed to more than 10% of the Group's revenue in the relevant segment.

For the year ended 31 December 2009, revenues from two customers in the sale of composite materials segment amounted to HK$7,089,000 and HK$1,840,000 respectively, and revenues from two customers in the manufacture and sale of PE/FRP pipes segment amounted to HK$5,059,000 and HK$3,912,000 respectively. Both customers had contributed to more than 10% of the Group's revenue in the relevant segment.

8. OTHER INCOME AND GAIN

	2010 **HK$'000**	2009 HK$'000
Continuing operations		
Bank interest income	**72**	125
Gain on deregistration of a subsidiary (Note 34)	**–**	320
Sundry income	**87**	94
	159	539

9. FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Continuing operations		
Interest expenses on bank borrowings wholly repayable within five years	**2,723**	–
Imputed interest expenses on convertible bonds maturing within five years	**19,693**	19,936
Others	**–**	208
	22,416	20,144

10. LOSS BEFORE INCOME TAX

(a) Continuing operations

	2010 HK$'000	2009 HK$'000
Loss before income tax is arrived at after charging:		
Auditors' remuneration	**680**	680
Minimum lease payments under operating lease charges in respect of land and buildings	**2,170**	2,272
Depreciation (Note)	**8,192**	4,614
Loss on disposal of property, plant and equipment	**2,802**	–
Write-off of property, plant and equipment	**–**	108

Note: The above depreciation charge included an amount of HK$4,950,000 (2009: HK$2,167,000) charged to cost of inventories sold on the face of the consolidated income statement.

10. LOSS BEFORE INCOME TAX (Continued)

(b) Discontinued operations

During the year, the Group started the process to dispose of its mining operations which are represented by a 12.21% equity interest in the registered paid up capital of Xin Shougang Zi Yuan Holdings Limited (新首鋼資源控股有限公司) ("Xin Shougang") it used to held, a company established in the PRC with limited liability, and the entire equity interest in Zhong Ping Resources Holdings Limited ("Zhong Ping"), a company incorporated in the British Virgin Islands ("BVI") and its subsidiary ("Zhong Ping Group") (collectively the "Disposal Group").

Xin Shougang and its subsidiary are principally engaged in mining business. The principal assets of Xin Shougang as at the date of disposal were the exclusive rights to invest in, develop and to apply for the mining rights for the mining sites with mainly iron minerals located at Yichang City, the PRC.

On 2 December 2010, the Group completed the disposal of its 12.21% equity interest in Xin Shougang, the consideration of which included a cash payment of approximately HK$25.3 million and the transfer to the Company the entire non-voting redeemable convertible preferred shares ("CPS") issued by the Company by Great Ocean Real Estate Limited, the sole shareholder of these shares, for repurchase and cancellation by the Company. The disposal of Xin Shougang resulted in a loss of approximately HK$26.5 million and the repurchase and cancellation of CPS resulted in a gain of approximately HK$10.7 million to the Group. Details of these transactions are set out in the Company's circular and announcement dated 8 June 2010 and 2 December 2010 respectively.

On 12 November 2010, independent shareholders of the Company passed a resolution at an extraordinary general meeting to approve the deed of settlement dated 17 September 2010 executed by the Company, the joint and several liquidators of Lehman Brothers appointed by the order of the court of First Instance of Hong Kong (the "Liquidator"), Lehman Brothers Commercial Corporation Asia Limited ("Lehman Brothers") in relation to the redemption of the 4.5% convertible bonds of the Company in the principal amount of HK$246,250,000 issued by the Company to Lehman Brothers (the "Convertible Bonds") and the transfer of the 100% of the issued share capital of Zhong Ping to Lehman Brothers or a party so directed by Lehman Brother (the "Deed of Settlement").

10. LOSS BEFORE INCOME TAX *(Continued)*

(b) Discontinued operations *(Continued)*

Details of the terms of the Deed of Settlement are set out in the Company's circular and announcement dated 11 October 2010 and 12 November 2010 respectively. The Company is required to pay HK$85 million to Lehman Brothers as partial consideration of the redemption of the Convertible Bonds.

Zhong Ping holds a 70% interest in ARIA LLC, a company incorporated in Mongolia with limited liability. ARIA LLC in turn is the owner of the mining rights with an expiry date of 10 August 2035 in the green field mining exploration project, the Mungun-Undur Polymeticalic Project located in Mungun-Undur, Khentii Province, Mongolia. The Project has prospects for silver, lead, zinc and tin mineralization.

Following the completion of the disposal of Xin Shougang and the approval of the Deed of Settlement described above, the Group has effectively discontinued its mining operations.

10. *LOSS BEFORE INCOME TAX (Continued)*

(b) Discontinued operations *(Continued)*

The results of the discontinued operations associated with the Group's investments in Xin Shougang up to the date of disposal and in Zhong Ping during the year included in the consolidated income statement are set out below:

	2010 **HK$'000**	2009 HK$'000
Loss for the year from discontinued operations:		
Gain on repurchase and cancellation of convertible preferred shares	**10,699**	–
Depreciation	**–**	(4)
Amortisation of mining rights (Note 18)	**(6,987)**	(8,090)
Other operating expenses	**(79)**	(193)
Loss on disposal of available-for-sale investments	**(26,495)**	–
Imputed interest on convertible preferred shares (Note 30)	**(4,367)**	(4,764)
Impairment loss on available-for-sale investments	**–**	(805,580)
Share of losses of an associate	**–**	(10,282)
Loss before income tax	**(27,229)**	(828,913)
Income tax credit (Note 29)	**2,468**	1,367
Loss for the year from discontinued operations	**(24,761)**	(827,546)
Operating cash flows	**(16)**	(204)
Investing cash flows	**23,841**	–
Financing cash flows	**–**	(9,528)
Total cash flows	**23,825**	(9,732)

10. LOSS BEFORE INCOME TAX *(Continued)*

(b) Discontinued operations *(Continued)*

As at 31 December 2010, the Group had paid the consideration of HK$85 million to Lehman Brothers as partial consideration for the redemption of the Convertible Bonds in accordance with the terms of the Deed of Settlement. As of the date of approval of these financial statements, the entire transaction has not been completed as the Lehman Brothers have not yet directed the Company to transfer the issued share capital of Zhong Ping to them or to their designated party. Unless the Company and Lehman Brothers agree to an extension, both parties have up to 31 October 2011 to exercise their rights and fulfil their obligations under the Deed of Settlement.

Accordingly, the payment of HK$85 million has been including in the statement of financial position as deposit paid for future settlement of the Convertible Bonds, the assets of Zhong Ping Group have been included and classified as assets held for sale and the liabilities of Zhong Ping Group have been classified as liabilities associated with assets classified as held for sale.

For the purpose of presenting discontinued operations, the comparative consolidated income statement, consolidated statement of comprehensive income and the related notes have been re-presented as if the operations discontinued during the year had been discontinued at the beginning of the comparative period.

11. INCOME TAX

(a) Income tax credit in the consolidated income statement represents:

	2010 **HK$'000**	2009 HK$'000
Continuing operations		
Deferred taxation (Note 29)		
– attributable to the origination and reversal of temporary differences, net	**(821)**	(817)

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.

11. INCOME TAX *(Continued)*

(a) Income tax credit in the consolidated income statement represents: *(Continued)*

In accordance with various approval documents issued by the State Tax Bureau and the Local Tax Bureau of the PRC, Yichang Fuliangjiang Joint Composite Limited (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 enterprise income tax ("EIT") for the first two profitable financial years of its operation and thereafter a 50% relief from the state EIT of the PRC for the following three financial years (the "Tax Holiday"). Upon expiry of the Tax Holiday in 2011, the standard EIT rate of 25% will be applied in accordance with the PRC Enterprise Income Tax Law approved by the National People's Congress on 16 March 2007 and became effective from 1 January 2008. No provision for EIT has been made as the subsidiary sustained a loss during the current and prior years.

11. INCOME TAX (Continued)

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

	2010 HK$'000	2009 HK$'000
Continuing operations		
Loss before income tax	**(34,822)**	(39,476)
Income tax credit calculated at the statutory PRC EIT tax rate of 25% (2009: 25%)	**(8,706)**	(9,869)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(410)**	(425)
Tax effect of expenses not deductible for taxation purposes	**6,718**	6,843
Tax effect of non-taxable items	**–**	(61)
Utilisation of tax loss previously not recognised	**(93)**	–
Tax effect on unused tax losses not recognised	**1,670**	2,695
Income tax credit for the year	**(821)**	(817)

12. 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 2010 includes a loss of HK$20,341,000 (2009: HK$29,208,000) 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 2010 (2009: HK$Nil).

13. LOSS PER SHARE

For continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	2010	2009
	HK$'000	HK$'000
Loss:		
Loss for the purposes of basic and diluted loss per share	**57,170**	864,145

	2010	2009
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**1,375,675**	999,403

The weighted average number of ordinary shares in issue during the year has been adjusted to reflect the open offer and subscription of shares during the year (Note 31).

13. LOSS PER SHARE (Continued)

From continuing operations

	2010	2009
	HK$'000	HK$'000
Loss:		
Loss for the year attributable to owners of the Company	**57,170**	864,145
Less: Loss for year from discontinued operations	**(23,169)**	(825,486)
Loss for the purposes of basic and diluted loss per share from continuing operations	**34,001**	38,659

The number of shares used are the same as those detailed above for both basic and diluted loss per share.

From discontinued operations

Basic and diluted loss per share for the discontinued operations is HK$0.017 per share (2009: loss of HK$0.826 per share), based on the loss for the year from the discontinued operations of HK$23,169,000 (2009: HK$825,486,000) and the number of shares as detailed above for both basic and diluted loss per share.

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 years ended 31 December 2010 and 2009 are the same.

14. STAFF COSTS, INCLUDING DIRECTORS' REMUNERATION

	2010 HK$'000	2009 HK$'000
Continuing operations		
Salaries and allowances	**7,527**	7,767
Retirement benefit scheme contributions (Note)	**473**	513
	8,000	8,280

Note: Staff salaries of HK$1,236,000 (2009: HK$891,000) were included in cost of inventories sold as presented in the consolidated income statement.

15. 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
2010				
Executive directors:				
Ms. Ma Zheng	–	1,246	12	1,258
Mr. Wong Pui Yiu	–	771	12	783
	–	2,017	24	2,041
Independent non-executive directors:				
Mr. Wan Tze Fan Terence	171	–	–	171
Mr. Chung Chin Keung	171	–	–	171
Mr. Liu Weichang	171	–	–	171
	513	–	–	513
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

15. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

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

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

(b) Five highest paid individuals

The five highest paid individuals during the year included two (2009: two) directors, details of whose remuneration are set out in Note 15(a) above. Details of the remuneration of the remaining three (2009: three) non-director, highest paid individuals for the year are as follows:

	2010	2009
	HK$'000	HK$'000
Basic salaries, share options and other benefits	**1,126**	1,023
Discretionary bonuses	**291**	208
Retirement benefit scheme contributions	**36**	35
	1,453	1,266

The emoluments fell within the following band:

	Number of individuals	
	2010	2009
Nil – HK$1,000,000	**3**	3

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Leasehold improvements	Computer equipment	Plant and machinery	Furniture, fixtures and office equipment	Construction in progress	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2009								
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
Reclassification	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

16. *PROPERTY, PLANT AND EQUIPMENT (Continued)*

The Group *(Continued)*

	Buildings	Leasehold improvements	Computer equipment	Plant and machinery	Furniture, fixtures and office equipment	Construction in progress	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2010								
Opening carrying amount	41,572	–	692	38,637	3	653	2,399	83,956
Additions	39,782	–	144	39,537	–	18	199	79,680
Reclassification	–	–	–	514	–	(514)	–	–
Disposals	–	–	(8)	(3,776)	–	–	–	(3,784)
Depreciation	(2,298)	–	(299)	(4,626)	(1)	–	(968)	(8,192)
Exchange difference	1,515	–	24	1,591	–	(157)	87	3,060
Closing carrying amount	80,571	–	553	71,877	2	–	1,717	154,720
At 31 December 2010								
Cost	88,462	376	1,856	78,236	112	–	5,283	174,325
Accumulated depreciation and impairment losses	(9,231)	(376)	(1,305)	(7,823)	(110)	–	(3,608)	(22,453)
Exchange difference	1,340	–	2	1,464	–	–	42	2,848
Net carrying amount	80,571	–	553	71,877	2	–	1,717	154,720

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

At 31 December 2010, the Group's buildings with a carrying amount of HK$42,940,000 (2009: Nil) were pledged as the security for a bank loan (Note 28).

17. 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:

	2010 HK$'000	2009 HK$'000
Outside Hong Kong, held on medium-term lease	**32,053**	31,624
Opening carrying amount	**31,624**	32,171
Amortisation	**(723)**	(698)
Exchange difference	**1,152**	151
Closing carrying amount	**32,053**	31,624
Less: Current portion included in other receivables, deposits and prepayments	**(723)**	(698)
Non-current portion	**31,330**	30,926

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

At 31 December 2010, the Group's land use rights with a carrying amount of HK$32,053,000 (2009: Nil) were pledged as the security for a bank loan (Note 28).

18. MINING RIGHTS

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

	2010	2009
	HK$'000	HK$'000
Opening carrying amount	**206,963**	214,057
Amortisation (Note 10(b))	**(6,987)**	(8,090)
Exchange difference	**7,543**	996
	207,519	206,963
Classified as assets held for sale (Note 19)	**(207,519)**	–
Closing carrying amount	**–**	206,963
As at 31 December		
Cost	**451,806**	451,806
Accumulated amortisation and impairment loss	**(258,443)**	(251,456)
Exchange difference	**14,156**	6,613
Classified as assets held for sale (Note 19)	**(207,519)**	–
Net carrying amount	**–**	206,963

(Expressed in Hong Kong dollars)

18. MINING RIGHTS (Continued)

As set out in Note 10(b), the Group's mining rights held by Zhong Ping Group was transferred at the carrying amount to assets classified as held for sale. Amortisation during the year was provided, in accordance with the Group's policy as set out in Note 4(g), up to 12 November 2010, being the date that the Deed of Settlement was approved by the independent shareholders of the Company as detailed in Note 10(b).

At 31 December 2009, the mining rights were stated at fair value by 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").

The directors assessed impairment as at 31 December 2010 based on the valuation report on the fair value of the mining rights as at that date issued by the Professional Valuers and are of the view that there is no impairment loss for 2010.

The fair value 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 percentages increase in prices for the commodities concerned in 2010 and 2009 are as follows:

	2010	2009
	%	%
Silver	**148**	102
Lead	**6**	33
Zinc	**7**	60
Tin	**78**	48

Details of the Group's mining rights as at 31 December 2010 were as follows:

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

19. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

As set out in Note 10(b), following the approval of the Deed of Settlement, the mining rights held by Zhong Ping Group are being disposed of to the holder of the Company's Convertible Bonds. Accordingly, the following assets and liabilities of Zhong Ping Group relating to the mining operations have been classified as held for sale in the consolidated statement of financial position.

	HK$'000
Mining rights (Note 18)	207,519
Cash and cash equivalents	1
Other receivables	92
Assets related to the mining business classified as held for sale	207,612
Other payables	255
Deferred tax liabilities (Note 29)	29,255
Liabilities of the mining business associated with assets classified as held for sale	29,510
Net assets of the mining business classified as held for sale	178,102

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

	The Company	
	2010	2009
	HK$'000	HK$'000
Unlisted shares, at cost	**470,749**	470,749
Less: provision for impairment	**(156,538)**	(49,503)
	314,211	421,246
Amounts due from subsidiaries	**1,077,073**	1,184,884
Less: provision for impairment	**(744,529)**	(662,621)
	332,544	522,263
Less: current portion	**–**	(6,500)
Non-current portion	**332,544**	515,763
Amounts due to subsidiaries	**(157,835)**	(157,873)

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

Except for the amounts due from subsidiaries totalling HK$6,500,000 (2009: HK$6,500,000), which bear interest at the prime rate of The Hongkong and Shanghai Banking Corporation Limited plus 1% per annum and are repayable within two years (2009: 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 classified as current liabilities are unsecured, interest free and repayable on demand.

Accumulated impairment provisions of HK$156,538,000 (2009: HK$49,503,000) and HK$744,529,000 (2009: HK$662,621,000) respectively were recognised as at 31 December 2010 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)

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

Particulars of the Company's principal subsidiaries as at 31 December 2010 were as follows:

			Proportion of ownership interest			
Name of company	**Country of incorporation/ establishment and operation**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by subsidiary**	**Principal activity**
e-gameasia.com Ltd	BVI/Hong Kong	10,279,450 ordinary shares of HK$1 each	100%	100%	–	Investment holding
Billybala Software (BVI) Limited	BVI/Hong Kong	1 ordinary share of US$0.01 each	100%	100%	–	Investment holding
Yichang Fuliangjiang Joint Composite Limited (Note (i))	PRC	HK$122,238,000	100%	–	100%	Trading of composite materials 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$1,000,000	100%	–	100%	Provision of administrative service to group companies
Billybala iGame Limited	Hong Kong	HK$ 7 ordinary shares of HK$1 each	100%	–	100%	Provision of administrative service to group companies
Zhong Ping Resources Holdings Limited (Note (ii))	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

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

Notes:

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

(ii) As detailed in Note 10(b) to the financial statements, the Group has discontinued its mining operations associated with its investments in these two subsidiaries during the year.

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.

21. AVAILABLE-FOR-SALE INVESTMENTS

	The Group	
	2010	2009
	HK$'000	HK$'000
Unlisted equity investments, at fair value	**–**	314,800

Unlisted equity investments represented the Group's interest in 12.21% equity interest in the registered paid up capital of Xin Shougang. As set out in Note 10(b), the investments were disposed of during the year. The resulting loss on disposal of approximately HK$26.5 million has been included in loss on discontinued operations.

In 2009, the investments in Xin Shougang were designated as available-for-sale investments from interests in associates following the dilution of the Group's interest in this company to only 12.21%.

At 31 December 2009 the investments were stated as fair value by reference to on a professional valuation on the investments carried out by Greater China Appraisal Limited and an impairment loss of HK$805,580,000 was recognised.

22. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	The Group	
	2010	2009
	HK$'000	HK$'000
Other receivables and deposits	**103,353**	69,995
Prepayments	**141,048**	42,059
	244,401	112,054
Less: Provision for impairment loss on prepayments	**–**	(273)
	244,401	111,781
Less: Current portion (Note (i))	**(236,168)**	(54,550)
Non-current portion (Note (ii))	**8,233**	57,231

Notes:

(i) Current portion of the balance as at 31 December 2010 included payments of HK$140,803,000 (2009: HK$41,800,000) to suppliers for future purchases of inventories in anticipation to increase in prices of composite materials and payments of HK$85,000,000 to Lehman Brothers as partial consideration for the redemption of the Convertible Bonds (Note 10(b)).

(ii) As at 31 December 2010, the Group paid deposits of HK$8,233,000 (2009: HK$2,264,000) for the construction of new factory buildings in Yichang, the PRC.

Balance as at 31 December 2009 included deposits paid of HK$20,871,000 for the purchase of property, plant and equipment for the expansion of the polyethylene pipes production facilities and HK$34,096,000 for the purchase and fit-out work of two properties located in Yichang, the PRC, for training, marketing and selling purposes. All these transactions were completed during the year and the related balances were transferred to the relevant items of property, plant and equipment.

23. INVENTORIES

	The Group	
	2010	2009
	HK$'000	HK$'000
Raw materials	**9,014**	25,458
Work in progress	**236**	205
Finished goods	**15,216**	25,056
	24,466	50,719

24. TRADE AND BILLS 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 to 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 and bills receivables as at the end of reporting period, based on the invoice date, is as follows:

	The Group	
	2010	2009
	HK$'000	HK$'000
Within 30 days	**42,578**	7,862
31 – 60 days	**8,341**	743
61 – 90 days	**46**	787
Over 90 days	**2,552**	1,396
	53,517	10,788

24. TRADE AND BILLS RECEIVABLES (Continued)

At 31 December 2010 and 2009, all of the Group's trade and bills 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 at the end of the reporting periods.

At 31 December 2010, the Group's bills receivable of HK$18,836,000 was discounted to a bank with recourse. The Group continued to recognise the full carrying amount of the receivables and the cash received as a secured bank borrowings (Note 28). No such transactions were entered into in 2009.

25. CASH AND CASH EQUIVALENTS

At the end of reporting period, cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$32,057,000 (2009: HK$51,066,000). The RMB is not freely convertible into other currencies. However, under the 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.

26. TRADE PAYABLES

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

	The Group	
	2010	2009
	HK$'000	HK$'000
Within 30 days	**3,626**	925
31 – 60 days	**52**	584
61 – 90 days	**27**	62
Over 90 days	**1,319**	941
	5,024	2,512

27. CONVERTIBLE BONDS

The Group's and the Company's outstanding convertible bonds as at 31 December 2010 and 2009 are as follows:

(a) The 4.5% convertible bonds were issued to Lehman Brothers on 31 October 2007 with a nominal value of HK$246,250,000 and matured on 31 October 2010. No conversion had taken place since the Convertible Bonds were issued.

Coupon interest of 4.5% per annum was payable semi-annually in arrears up to 31 October 2010. The effective interest of the Convertible Bonds was determined at 9.11% per annum (2009: 9.11% per annum) using the effective interest method. The carrying value of the Convertible Bonds as at 31 December 2010 was HK$246,250,000 (2009: HK$241,271,000).

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 financial statements. As set out in Note 10(b), the Company has entered into a Deed of Settlement with Lehman Brothers for the settlement of the Convertible Bonds.

27. 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 effective interest of the convertible bonds was determined at 7.474% per annum using the effective interest method.

The Group fully redeemed the above convertible bonds at the maturity dated on 26 April 2009.

The fair values of the liability components of the above convertible bonds were calculated using the market interest rates for equivalent non-convertible bonds. The residual amounts, representing the values of the equity conversion components, were included in equity, net of deferred taxes.

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

	The Group and the Company	
	2010	2009
	HK$'000	HK$'000
Nominal value of convertible bonds	**246,250**	252,520
Equity component	**(22,164)**	(23,226)
Direct transaction costs attributable to the liability component	**(7,087)**	(7,087)
Liability component on initial recognition	**216,999**	222,207
Accumulated interest expenses recognised	**62,525**	44,082
Accumulated interest paid	**(24,040)**	(18,623)
Accumulated accrued interest expenses	**(9,234)**	–
Redemption of convertible bonds and related interest	**–**	(6,395)
Liability component at 31 December	**246,250**	241,271
Less: current portion	**(246,250)**	(241,271)
Non-current portion	**–**	–

28. BANK BORROWINGS

	The Group	
	2010	2009
	HK$'000	HK$'000
Bank loan – secured (Note (ii))	**58,862**	–
Bills discounted with recourse – secured (Note (iii))	**18,836**	–
	77,698	–

Notes:

(i) All the Group's bank borrowings as at 31 December 2010 are repayable within one year.

(ii) Bank loan with a term of one year raised on 26 March 2010 bears interest at 5.31% per annum. The loan is secured by certain buildings (Note 16) and land use rights (Note 17) of the Group with carrying amounts as at 31 December 2010 of HK$42,940,000 and HK$32,053,000 respectively.

(iii) Bills discounted with recourse are interest-bearing at 4% per annum and is repayable on 4 May 2011.

29. 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 2009	(33,024)	(1,638)	(148,137)	(19)	(182,818)	(1,638)	(148,137)	(149,775)
Deferred tax charge/(credit) to profit or loss during the year								
– Continuing operations (Note 11(a))	–	817	–	–	817	817	–	817
– Discontinued operations (Note 10(b))	2,022	–	(655)	–	1,367	–	(655)	(655)
At 31 December 2009	(31,002)	(821)	(148,792)	(19)	(180,634)	(821)	(148,792)	(149,613)
Release upon repurchase and cancellation of convertible preferred shares	–	–	148,071	–	148,071	–	148,071	148,071
Deferred tax charge to profit or loss during the year								
– Continuing operations (Note 11(a))	–	821	–	–	821	821	–	821
– Discontinued operations (Note 10(b))	1,747	–	721	–	2,468	–	721	721
	(29,255)	–	–	(19)	(29,274)	–	–	–
Classified as liabilities associated with assets classified as held for sale (Note 19)	29,255	–	–	–	29,255	–	–	–
At 31 December 2010	–	–	–	(19)	(19)	–	–	–

29. DEFERRED TAX LIABILITIES (Continued)

The Group has tax losses arising in Hong Kong of HK$1,733,000 (2009: HK$1,733,000) and the PRC of HK$24,691,000 (2009: HK$23,758,000) 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.

30. CONVERTIBLE PREFERRED SHARES

The Group and Company

On 26 October 2007, the authorised CPS capital of HK$5 million divided into 4,000,000,000 CPS of HK$0.00125 each was created by a 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 were 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 to HK$2.651 and 359,396,454 respectively following the share consolidation on 20 August 2009. There had been no conversion of the CPS since they were issued.

As set out in Note 10(b), on 2 December 2010, the Company completed the repurchase and cancellation of the CPS. The resulting profit on repurchase and cancellation of approximately HK$10.7 million has been included in loss on discontinued operations.

30. CONVERTIBLE PREFERRED SHARES (Continued)

The Group and Company (Continued)

The CPS recognised in the Company's and the Group's statements of financial position are as follows:

	Number of ordinary shares to be issued upon conversion of CPS	Equity component	Liability component	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2009	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 10(b))	–	–	4,764	4,764
Interest paid	–	–	(9,528)	(9,528)
At 31 December 2009	359,396,454	753,639	50,992	804,631
Imputed interest (Note 10(b))	–	–	4,367	4,367
Repurchased and cancelled	(359,396,454)	(753,639)	(55,359)	(808,998)
At 31 December 2010	–	–	–	–

The effective interest on the CPS was determined at 9.49% per annum using the effective interest method.

31. SHARE CAPITAL

	Number of shares '000	Amount HK$'000
Authorised:		
Ordinary share of HK$0.00125 each at 1 January 2009	96,000,000	120,000
Share consolidation (Note (ii))	(86,400,000)	–
Ordinary share of HK$0.0125 each at 31 December 2009 and 2010	9,600,000	120,000
Issued and fully paid:		
Ordinary share of HK$0.00125 each at 1 January 2009	8,197,355	10,247
Rights issue (Note (i))	4,098,678	5,123
Share consolidation (Note (ii))	(11,066,430)	–
Ordinary share of HK$0.0125 each at 31 December 2009	1,229,603	15,370
Open offer (Note (iii))	614,802	7,685
Subscription of shares (Note (iv))	570,000	7,125
Ordinary share of HK$0.0125 each at 31 December 2010	2,414,405	30,180

31. SHARE CAPITAL (Continued)

Notes:

(i) Rights issue

A rights issue of one rights share for every two existing shares held by the shareholders whose names appeared on the register of members of the Company on 15 July 2009 was made, at the issue price of HK$0.02 per rights share in 2009. 4,098,677,600 shares of HK$0.00125 each were issued for a total cash consideration of HK$81,973,552 before issue expenses of HK$6,773,000 (Note 33).

(ii) 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 1,229,603,280 issued Consolidation Shares of HK$0.0125 each and 8,370,397,000 unissued Consolidation Shares of HK$0.0125 each.

(iii) Open offer of shares

An open offer of one offer share for every two existing shares held by the shareholders whose names appeared on the register of members of the Company on 27 October 2010 was made at the issue price of HK$0.08 per offer share. 614,801,640 shares of HK$0.0125 each were issued at the issue price of HK$0.08 per offer share for a total cash consideration of HK$49,184,131 before issue expenses of HK$2,136,000 (Note 33).

(iv) Subscription of shares

On 16 November 2010, the Company allotted and issued 570,000,000 shares of HK$0.0125 each to Mr. Yu Hongzhi, the major shareholder of the Company, at the issue price of HK$0.08 per share for a total cash consideration of HK$45,600,000 (Note 33).

32. 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 and (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date for grant of the relevant options.

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.

32. SHARE OPTIONS SCHEME (Continued)

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

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

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

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

Grantees	Date of granted	Balance as at 1 January 2009	Right issue during the year	Share consolid-ation during the year	Balance as at 31 December 2009 and at 1 January 2010	Adjustment on open offer and subscription of shares during the year	Lapsed during the year	Balance as at 31 December 2010	Period during which the options are exercisable	Adjusted exercise price per share
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000		
Ms Ma Zheng (Director)	8 January 2008	20,000	5,120	(22,608)	2,512	387	–	2,899	8 July 2008 to 27 November 2011	HK$1.5182
Mr Wan Tze Fan Terence (Director)	8 January 2008	3,000	768	(3,391)	377	58	–	435	8 July 2008 to 27 November 2011	HK$1.5182
Mr Li Weichang (Director)	8 January 2008	3,000	768	(3,391)	377	58	–	435	8 July 2008 to 27 November 2011	HK$1.5182
Employees	8 January 2008	560,000	143,360	(633,024)	70,336	10,831	(9,856)	71,311	8 July 2008 to 27 November 2011	HK$1.5182
		586,000	150,016	(662,414)	73,602	11,334	(9,856)	75,080		

32. SHARE OPTIONS SCHEME (Continued)

The adjusted price per share option and the adjusted number of ordinary shares of the Company to be converted were adjusted after the open offer and the subscription of shares during the year as detailed in Note 31, to HK$1.5182 and 75,080,162 respectively.

No share options were granted and exercised in both 2009 and 2010. During the year, 9,856,000 share options lapsed. At the end of reporting period and the date of approval of these financial statements, the Company had 75,080,162 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 75,080,162 additional ordinary shares of the Company and increase in share capital of HK$938,502 and share premium of HK$113,048,200 (before issue expenses).

33. RESERVES OF THE COMPANY

	Share premium account HK$'000 (Note)	Convertible bonds reserve HK$'000 (Note 27)	Employee compensation reserve HK$'000 (Note 32)	Convertible preferred shares reserve HK$'000 (Note 30)	Warrants reserve HK$'000	Accumulated losses HK$'000	Total equity HK$'000
Balance at 1 January 2009	282,762	18,985	38,031	753,639	7,619	(236,959)	864,077
Rights issue (Note 31(i))	76,850	–	–	–	–	–	76,850
Share issue expenses (Note 31(i))	(6,773)	–	–	–	–	–	(6,773)
Redemption of convertible bonds	–	(1,063)	–	–	–	1,063	–
Release upon lapse of warrants	–	–	–	–	(7,619)	7,619	–
Loss and other 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
Open offer of shares (Note 31(iii))	41,499	–	–	–	–	–	41,499
Share issue expenses in relation to the open offer of shares (Note 31(iii))	(2,136)	–	–	–	–	–	(2,136)
Subscription of shares (Note 31(iv))	38,475	–	–	–	–	–	38,475
Lapse of share options	–	–	(4,413)	–	–	4,413	–
Repurchase and cancellation of convertible preferred shares (Note 30)	–	–	–	(753,639)	–	834,233	80,594
Loss and other comprehensive income for the year	–	–	–	–	–	(209,285)	(209,285)
Balance at 31 December 2010	**430,677**	**17,922**	**33,618**	**-**	**-**	**(184,856)**	**297,361**

33. RESERVES OF THE 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.

34. 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:

	HK$'000
Property, plant and equipment	100
Cash and cash equivalents	9,256
Non-controlling 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 8)	(320)
	5,095

The deregistered subsidiary did not have any contribution to either the Group's turnover or operating results during the year ended 31 December 2009.

35. CAPITAL COMMITMENTS

The Group

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

	2010 HK$'000	2009 HK$'000
Property, plant and equipment contracted but not provided for	**14,491**	32,588

The Company

The Company did not have any significant capital commitments at the end of both reporting periods.

36. OPERATING LEASE ARRANGEMENTS

The Group

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

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

	2010 HK$'000	2009 HK$'000
Within one year	**850**	2,077
After one year but within five years	**999**	1,720
	1,849	3,797

The Company

The Company did not have any significant operating lease commitments at the end of both reporting periods.

37. 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 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 2010. 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.

38. RELATED PARTY TRANSACTIONS

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

	2010	2009
	HK$'000	HK$'000
Related company		
– Sales of products	**27,517**	6,899
– Purchase of materials	**6,166**	34,582
Shareholder		
– Convertible bonds interest paid	**–**	167
– Payment for redemption of convertible bonds	**–**	6,395

The major shareholder of the Company is also a director of the related company which is not a member of the Group.

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 27(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 15(a) to the financial statements.

39. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes convertible bonds, bank borrowings and convertible preferred shares disclosed in Notes 27, 28 and 30 respectively, cash and cash equivalents disclosed in Note 25 and equity attributable to owners of the Company, comprising share capital and reserves as disclosed in Note 30 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 disposal of available-for-sale investment 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 20%.

The gearing ratio at the end of reporting period was as follows:

	2010 **HK$'000**	2009 HK$'000
Debts	**323,948**	292,263
Cash and cash equivalents	**(45,930)**	(76,071)
Net debts	**278,018**	216,192
Equity	**390,012**	408,183
Net debts to equity ratio	**71.28%**	52.96%

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk as 35% (2009: 92%) and 94% (2009: 89%) 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 other receivables and trade and bill receivables are set out in Notes 22 and 24 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.

40. 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.

All the Group's and the Company's financial liabilities at the end of reporting period are due within one year or on demand.

40. 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 27 and 30 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.

	2010		2009	
	Effective interest rate %	**HK'000**	Effective interest rate %	HK'000
Fixed rate				
Bank loan	**5.31%**	**58,862**	N/A	N/A
Bills discounted with recourse	**4%**	**18,836**	N/A	N/A
Variable rate				
Bank balances	**0.221%**	**32,217**	0.209%	51,238

It is estimated that as at 31 December 2010, a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's loss after income tax and accumulated losses by HK$314,000 (2009: HK$513,000).

40. FINANCIAL RISK MANAGEMENT (Continued)

(d) Currency risk

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

(e) Price risk – Commodity price risk

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

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2010 and 2009.

(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 judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

41. 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 2010 and 2009 may be categorised as follows:

	2010	2009
	HK$'000	HK$'000
Financial assets		
Available-for-sale investments at fair value	**–**	314,800
Loans and receivables at amortised cost (including cash and cash equivalents)	**202,800**	89,433
Financial liabilities		
Financial liabilities measured at amortised cost	**342,435**	297,232

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

(b) The following provides an analysis of financial instruments carried at fair value as at 31 December 2009 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).

In 2009, the Group adopted Level 3 for determining and disclosing the fair value of available-for-sale investments.

41. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (Continued)

(b) The following provides an analysis of financial instruments carried at fair value as at 31 December 2009 by level of fair value hierarchy: (Continued)

The movements in fair value measurements available-for-sale unlisted financial investments in Level 3 during the year ended 31 December 2009 were as follows:

	HK$'000
At 1 January 2009	–
Transfer from interest in an associate	1,120,380
Impairment loss recognised in profit or loss	(805,580)
At 31 December 2009	314,800

Financial Summary

(Expressed in Hong Kong dollars)

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

Results

	Year ended 31 December				
	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000
Continuing operations					
Turnover	**157,651**	38,712	72,770	31,826	34,806
Other income and gain	**159**	539	7,524	1,601	1,077
Operating expenses	**(170,216)**	(58,583)	(136,248)	(52,917)	(41,440)
Operating loss	**(12,406)**	(19,332)	(55,954)	(19,490)	(5,557)
Finance costs	**(22,416)**	(20,144)	(20,566)	(3,700)	(301)
Loss before income tax	**(34,822)**	(39,476)	(76,520)	(23,190)	(5,858)
Income tax credit/(charge)	**821**	817	1,330	272	(135)
Loss for the year from continuing operations	**(34,001)**	(38,659)	(75,190)	(22,918)	(5,993)
Discontinued operations					
(Loss)/profit for the year from discontinued operations	**(24,761)**	(827,546)	(1,223,807)	1,138,576	–
(Loss)profit for the year	**(58,762)**	(866,205)	(1,298,997)	1,115,658	(5,993)
(Loss)/profit attributable to:					
Owners of the Company	**(57,170)**	(864,145)	(1,243,920)	1,115,983	(5,993)
Non-controlling interests	**(1,592)**	(2,060)	(55,077)	(325)	–
	(58,762)	(866,205)	(1,298,997)	1,115,658	(5,993)

Assets and Liabilities

	31 December				
	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000
Total assets	**761,976**	886,049	1,678,232	2,515,997	175,662
Total liabilities	**(371,964)**	(477,866)	(495,128)	(431,416)	(8,050)
	390,012	408,183	1,183,104	2,084,581	167,612