PRIMARY RESOURCES

中國基礎資源控股有限公司

CHINA PRIMARY RESOURCES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT

2006

(Stock Code: 8117)

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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 suit 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid documents in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this annual report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this annual report.

This annual report, for which the directors of CHINA PRIMARY RESOURCES HOLDINGS LIMITED (the "Directors") 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 CHINA PRIMARY RESOURCES HOLDINGS LIMITED. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

Expressed in Hong Kong dollars ("HK$")

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

Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Yu Hongzhi *(Chairman)*
Ms. Ma Zheng
Mr. Chiu Winerthan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wan Tze Fan Terence
Mr. Liu Weichang
Mr. Gao Sheng Yu

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. Chan Wai, *CPA, FCCA*

COMPLIANCE OFFICER

Mr. Chiu Winerthan

QUALIFIED ACCOUNTANT

Mr. Chan Wai, *CPA, FCCA*

AUDIT COMMITTEE

Mr. Wan Tze Fan Terence
Mr. Liu Weichang
Mr. Gao Sheng Yu

REMUNERATION COMMITTEE

Mr. Wan Tze Fan Terence
Mr. Liu Weichang
Mr. Gao Sheng Yu

AUTHORISED REPRESENTATIVES

Mr. Chiu Winerthan
Ms. Ma Zheng

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Wing Hang Bank Limited

SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (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

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

HONG KONG SHARE REGISTRAR

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

Chairman's Statement

It is my pleasure to present the annual results of China Primary Resources Holdings Limited (the "Company") together with its subsidiaries (collectively referred to as the "Group"), for the year ended 31 December 2006.

RESULTS

During the year under review, the Group recorded a turnover of approximately HK$34,731,000 representing an increase of approximately 42%. As it was stated in the 2006 interim and third quarterly reports, resignation of Mr. Lang Fulai ("Mr. Lang"), former executive director of the Company, and fierce competition of FRP pipes market cause the reduction of the sales order during the year of 2006. The management team in Yichang had taken necessary steps to improve it, which includes the recent developments in producing polyethylene pipes ("PE pipes") and mining business.

The Board of Directors do not recommend the payment of any dividend for the year ended 31 December 2006.

ACHIEVEMENTS IN 2006 AND OUTLOOK FOR 2007

2006 was an outstanding year for the Company because of the followings achievements:

PE pipes production

As it was stated in the 2006 interim report, for solidifying the earning base, we had developed another pipes business in Yichang production plant, we produce PE pipes. PE pipes are kinds of plastics pipes. Common applications are:

- Mine water supply
- Mineral slurry pipelines
- Domestic water supply house service connections
- Vacuum sewerage systems
- Sewer rising mains
- Process pipe work
- Compressed air services
- Natural gas transmission and reticulation

I believed that this new lines of business will further solidify our earning base, and their contribution in term of turnover was of approximately HK$19,811,000 during the year 2006.

In 2006, we have two production lines of PE pipes installed, and in 2007, we will focus on integrating the new production line and exploring more sale channels and planning the further investments in the production scales and capacity.

Chairman's Statement

Mining business

Our Group is engaged in the trading and production of FRP pipes, and PE pipes in the PRC. However, we are always trying to broaden the Group's source of income. In view of the continued economic growth and accelerated industrialisation and urbanisation in the PRC as well as the development in the global economy, natural resources are in demand at all times and we believed that the demand will maintain its growth momentum. In view of the prospect in natural resources, the Company had taken the following steps in developing in mining business:

a. Entering into a Heads of Agreement in relation to the possible investment in a joint venture company and an exploration permit for coal in Australia, please refer to our announcement dated 5 September 2006 for details;

b. Obtaining the shareholders' approval for the formation of a joint venture company – 宜昌新首鋼貴金屬礦業有限公司 (Yichang Xin Shougang Precious Metal Mining Limited)#, which was established on August 2006, with our partner 新首鋼資源控股有限公司(Xin Shougang Zi Yuan Holdings Limited)# (the "Xin Shougang") (a 95% owned subsidiary of 首鋼控股有限責任公司 (Shougang Holdings Limited Liability Company)#), and they was granted the approval of determination of the mineral area scope ("國土資源部劃定礦區範圍批複") (the "Approval") by 中華人民共和國國土資源部 (State Lands Bureau)#. As stated in the Approval, the mineral area scope was approximately of 26.8860 square kilometers and the estimated capacity of vanadium(釩) is approximately 25,933 tonnes, and the estimated duration of service is 30 years, please refer to our announcement dated 7 July 2006 for details; and

c. In order to strengthen the development in mining business in Yichang, on 14 November 2006, 宜昌首控實業有限公司 (Yichang Shoukong Industries Co., Limited)# ("Yichang Shoukong"), a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with Great Ocean Real Estate Limited ("GORE"), pursuant to which Yichang Shoukong has conditionally agreed to acquire from 宜昌泰鴻礦山科技有限公司 (Yichang Tai Hong Mining Technology Company Limited)#, a wholly-owned subsidiary of GORE, 22.28% interest in the registered capital of Xin Shougang for an aggregate consideration of approximately HK$971 million. Please refer to our announcement dated 9 January 2007 for details. And on 2 February 2007, Yichang Shoukong, a wholly-owned subsidiary of the Company, entered into the Second Supplemental Deed with GORE to amend certain terms of the Acquisition Agreement, in particular the payment terms of the Consideration. Pursuant to the Second Supplemental Deed, the Consideration of approximately HK$971 million would now be satisfied by (i) cash of HK$18 million; and (ii) approximately 2,802 million Preferred Shares, which are convertible into Preferred Conversion Shares at the Initial Conversion Rate of 1:1, subject to adjustments. Please refer to our announcement dated 2 February 2007 for details.

Chairman's Statement

Enhancement of Capital Bases

In 2006, we have a numbers of funds raising activities completed, and approximately HK$108,589,600 was raised. These funds provide a strong capital bases for our future developments, all these details was stated in the section of Management Discussion and Analysis. In addition, on 3 January 2007, the Company and Lehman Brothers Commercial Corporation Asia Limited ("Lehman Brothers") entered into the Term Sheet in respect of the conditional issue of the convertible bonds ("Convertible Bonds") of maximum principal amount of approximately HK$246 million with coupon rate of 4.5% due 2010. The issuance of the Convertible Bonds is not yet completed, and is still subject to our shareholders approval and other precedent conditions. It is our wishes that this issuance can be completed as easily as possible since Lehman Brothers is a well-known international investment bank, and with Lehman Brothers acting as our future business partners, our Company's pace of future business development can be enhanced.

In 2007, the Company will focus on integrating the mining business, and, at the same time, with our advantage of having a business connection with Xin Shougang, we will put all our effort to explore the market of our pipes and mineral products, so that these new investments will be contributed, in terms of profits, to the Group as early as possible.

APPRECIATION

On behalf of the Board of Directors, I would like to express my sincere gratitude to our shareholders, fellow directors, staffs, customers and business partners for their ongoing support and contribution, especially those who involved in planning and developing all the new businesses and opportunity stated above. The coming year will still be challenging.

YU Hongzhi
Chairman
Hong Kong, 23 March 2007

Management Discussion and Analysis

OPERATION REVIEW

During the year under review, the Group continued to engage in the general trading of FRP Pipes, raw materials and composite materials and production of FRP Pipes and polyethylene pipes in the PRC. As it was stated in our 2006 interim and third quarterly report, production of FRP pipes was still in preliminary stage and, because of fierce competition and resignation of Mr. Lang Fulai (key man to the FRP pipes project), sales was dropped, but the management in Yichang had taken steps to improve it by (i) enhancing the products' the quality and controlling the cost and (ii) exploring more sales channels with existing marketing and sales teams. In addition, the management in Yichang also initiated in producing a new product – PE pipes (polyethylene pipes), and two production lines have been installed during the year.

On the other hand, 宜昌新首鋼貴金屬礦業有限公司 (Yichang Xin Shougang Precious Metal Mining Limited)# ("YXS Precious Metal Mining"), a joint venture company with 新首鋼資源控股有限公司 (Xin Shougang Zi Yuan Holdings Limited)# ("Xin Shougang") had been formed during the year, and its operation will be initiated as early as possible. Besides, the possible investment in a mining operation in Australia is still in progress, and the terms and conditions of the agreement are almost finalizing. In addition, 宜昌首控實業有限公司(Yichang Shoukong Industries Co., Limited)# , a wholly-owned subsidiary of the Group, has made the announcement in relation to the acquisition of a portion of equity interest in Xin Shougang. The terms and conditions of the agreement are subject to the approval of the shareholders of the Company.

FINANCIAL REVIEW

Turnover from continuing operations was approximately HK$34,731,000 and from discontinued operations was approximately HK$75,000, total turnover was approximately HK$34,806,000 for the year under review, which represented an increase of 41% while compared with that of last year. The significant improvement was mainly contributed from the selling of pipes. The audited loss before income tax from continuing operations for the year under review was approximately HK$5,876,000 but it was a profit of approximately HK$23,401,000 in the previous year. The loss attributable to shareholders was approximately of HK$5,938,000. The Board will still adopt the stringent cost control and maintain thin and effective overhead structure and prudently utilise the corporate resources to create wealth for the shareholders.

Management Discussion and Analysis

BUSINESS OUTLOOK AND PROSPECTS

The production of the PE pipes is initiated, the management now will focus their effort on maintaining the production and operation process of the PE pipes so as to control its cost of production, and we will be put more resources in building up our market reputation and also maintaining our market competition, and at the same time, we will seek ways of improving the FRP pipes' business. On the other hand, as it was stated by our Chairman, the Board's another more important tasks are to integrate the mining business and increase the pace of development of YXS Precious Metal Mining and the operation of Xin Shougang.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the net assets of the Group has approximately increased to HK$167,612,000 (2005: approximately HK$56,332,000) while its total assets were approximately HK$175,662,000 (2005: approximately HK$65,065,000) including cash and bank balances of approximately of HK$88,204,000. With the current ratio of 38.1, the Group remained in a financially liquid position and is able to finance ongoing operation.

FUNDING ACTIVITIES DURING THE YEAR

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

1. Subscription of 47,308,800 shares

On 25 January 2006, the Company entered into the subscription agreements with six subscribers (the "Subscribers") pursuant to which the Subscribers had conditionally agreed to subscribe for and the Company had conditionally agreed to allot and issue, an aggregate of 47,308,800 shares in cash at the subscription price of HK$0.315 per subscription share, the aggregate nominal value of which was HK$1,182,720. The net proceeds of the subscription of approximately HK$14,800,000 had been applied as general working capital of the Group which is the main reason for this issuance of shares. All the Subscribers are independent of each others and are independent third parties not being connected persons (as defined under the GEM Listing Rules) of the Group, with any of the directors, chief executive and other shareholders of the Company or its subsidiaries or any their respective associates. Details of these are stated in the announcements of the Company dated 26 January 2006 and 16 February 2006. The completion of the subscription of new shares took place on 16 February 2006.

2. Subscription of convertible bond

On 24 February 2006, the Company entered into a subscription agreement with Future Advance Holdings Limited ("Future Advance") pursuant to which the Company has conditionally agreed to create and issue, and Future Advance has conditionally agreed to subscribe for the convertible bond ("Convertible Bond") in the principal amount of HK$6,270,065.60 at a total subscription price of HK$6,270,065.60. The Convertible Bond may be converted into conversion shares at an initial conversion price of HK$0.40 per conversion share (subject to adjustments in accordance with the terms of Convertible Bond) during its conversion period. After the share subdivision effective on 1 August 2006, the conversion price was adjusted to HK$0.02 per conversion share. The completion of the subscription of the Convertible Bond took place on 27 April 2006 and the Convertible Bond had been created and issued to Future Advance. The entire amount of approximately HK$6,270,066 had been applied to set off against the total subscription price of HK$6,270,065.60 payable by Future Advance under the subscription agreement. Details of these are stated in the announcements of the Company dated 28 February 2006 and 27 April 2006 and the circular of the Company dated 21 March 2006.

3. Subscription of 56,770,560 shares

On 9 May 2006, the Company entered into the subscription agreements with four subscribers (the "Subscribers") pursuant to which the Subscribers had conditionally agreed to subscribe for and the Company had conditionally agreed to allot and issue an aggregate of 56,770,560 shares in cash at the subscription price of HK$1.5 per subscription share, the aggregate nominal value of which was HK$1,419,264. The Subscribers are 明亞國際有限公司 (Asia Bright International Limited), 明浩發展有限公司 (Main Concord Development Limited), First South International Limited and Siberian Worldwide Ltd, they are all being independent to each others and each of them is independent third party not connected person (as defined under the GEM Listing Rules) of the Company with any of the directors, chief executive and other shareholders of the Company or its subsidiaries or any of their respective associates. The net proceeds of the subscription of approximately HK$85,000,000 which has been retained by the Group with an intention to apply for investment in mining related business projects, which is the main reason for issuance of these shares. Details of these are stated in the announcements of the Company dated 10 May 2006, 23 May 2006, 26 May 2006 and 12 June 2006. The completion of the subscription of new shares took place on 26 May 2006 and 10 June 2006.

4. Private placing of 333,750,000 non-listed warrants

On 1 August 2006, the warrant placing agreement was entered into between the Company and Mr. Ha Siu Wa ("Mr. Ha") in relation to a private placing of 333,750,000 warrants (the "Warrants 1") (of which 2,800,000 Warrants 1 were exercised on 21 December 2006 and new shares had allotted and issued on 28 December 2006) at an issue price of HK$0.012 per warrant. The Warrants 1 entitle Mr. Ha to subscribe for new shares at an initial exercise price of HK$0.265 per new share for a period of three (3) years commencing from the date of issue of the Warrants 1. Each Warrants 1 carries the right to subscribe for one (1) new share. The net proceeds from the Warrants 1 placing of approximately HK$3,800,000 which has been applied as general working capital of the Group. Details of these are stated in the announcement of the Company dated 1 August 2006 and 23 August 2006. The completion of the Warrants 1 placing took place on 23 August 2006.

5. Private placing of 315,000,000 non-listed warrants

On 17 August 2006, the warrant placing agreement was entered into between the Company and Northern Power Group Limited ("NPGL") in relation to a private placing of 315,000,000 warrants (the "Warrants 2") at an issue price of HK$0.012 per warrant. The Warrants 2 entitle NPGL to subscribe for new shares at an initial exercise price of HK$0.28 per new share for a period of three (3) years commencing from the date of issue of the Warrants 2. Each Warrants 2 carries the right to subscribe for one (1) new share. The net proceeds from the Warrants 2 placing of approximately HK$3,600,000 which has been applied as general working capital of the Group. Details of these are stated in the announcement of the Company dated 18 August 2006 and 18 September 2006. The completion of the Warrants 2 placing took place on 18 September 2006.

Except for the above, the Company had no other funds raising activities during the year under review. All the above funds raising activities providing the Company with present and future capital resources, were necessary for the development of the Company.

With the funds raised previously and the internal generated financial resources, the Group has cash and bank balance approximately of HK$88,204,000 as at 31 December 2006, the directors of the Company (the "Directors") anticipate that the Group have adequate financial resources to meet its ongoing operations.

Management Discussion and Analysis

GEARING RATIO

As at 31 December 2006, the Group had cash of approximately HK$37,188,000 and RMB52,036,000 in its current assets while its current liabilities stood at approximately HK$2,562,000. The Group had long-term loan of approximately HK$5,469,000 as of 31 December 2006 and its shareholders' funds amounted to approximately HK$162,961,000. In this regard, the Group had a net cash position and its gearing ratio should be approximately 3.4% (long-term loan to shareholder's funds) as of 31 December 2006.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Sales and payment of the Group are denominated in Hong Kong dollars and Renminbi ("RMB"). No hedging or other alternatives have been implemented. As the exchange of Hong Kong dollars against RMB were relatively stable during the year, the Group's exposure to currency exchange risk was minimal.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2006, the Group did not have any significant contingent liabilities and no assets of the Group were pledged (2005: Nil).

SEGMENT INFORMATION

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

CAPITAL STRUCTURE

The shares of the Company were listed on the GEM of the Stock Exchange on 13 December 2001. There has been no change in the capital structure of the Company since the Company's listing on that date.

SIGNIFICANT INVESTMENTS

The resolution for the formation of a joint venture company with 新首鋼資源控股有限公司 (Xin Shougang Zi Yuan Holdings Limited)[#] ("Xin Shougang") was duly passed, and the joint venture company – 宜昌新首鋼貴金屬礦業有限公司 (Yichang Xin Shougang Precious Metal Mining Limited)[#] ("YXS Precious Metal Mining") had been formed and full operation of which is not yet initiated. Save as disclosed above, the Group had no other significant investments for the year ended 31 December 2006.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES/FUTURE PLANS FOR MATERIAL INVESTMENTS

The Company announced that (i) Heads of Agreement in relation to the possible investment in a joint venture company and an exploration permit for coal in Australia was entered into on 5 September 2006, the formal agreement is not yet entered into up to the approval date of this annual report, and (ii) on 14 November 2006, 宜昌首控實業有限公司 (Yichang Shoukong Industries Co., Limited)[#] ("Yichang Shoukong"), a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement ("Acquisition") with Great Ocean Real Estate Limited ("GORE"), pursuant to which Yichang Shoukong has conditionally agreed to acquire from 宜昌泰鴻礦山科技有限公司 (Yichang Tai Hong Mining Technology Company Limited)[#], a wholly-owned subsidiary of GORE, 22.28% interest in the registered capital of Xin Shougang for an aggregate consideration of approximately HK$971 million, we are preparing the necessary documents for finalizing the Acquisition but not yet completed.

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

EMPLOYEE INFORMATION

As at 31 December 2006, the Group has 4 full-time employees working in Hong Kong and 46 full-time employees working in the PRC respectively. The total of employees' remuneration, for the year under review amounted to approximately HK$4,109,000. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Biographical Details of Directors

DIRECTORS

Mr. Yu Hongzhi, aged 45

Chairman and Executive Director

Mr. Yu joined the Group in February 2004. He is currently the chief director of Shenzhen Zhi Xin Da Investment Development Co. Limited (深圳智信達投資發展有限公司). Mr. Yu graduated from Wuhan University (武漢大學) majoring in construction structure engineering in 1984. Prior to joining Shenzhen Zhi Xin Da Investment Development Co. Limited (深圳智信達投資發展有限公司), Mr. Yu had worked for several power companies in the PRC for over 16 years. Since 1996, Mr. Yu has engaged in the business of investment banking and has over ten years of experience in investment and management.

Ms. Ma Zheng, aged 40

Executive Director

Ms. Ma joined the Group in February 2004. She is currently a 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 17 years of extensive experience in international trading, electronic industry and corporation management. She graduated from Wuhan University (武漢大學) majoring in construction structure engineering.

Mr. Chiu Winerthan, aged 51

Executive Director

Mr. Chiu joined the Group in March 2004. Mr. Chiu graduated from university majoring in Chemical Engineering and worked in the university as lecturer in 1982. He had studied and worked in USA for ten years. Since 1989, he had engaged in the business of investment and had over 16 years of experience in investment and management. Prior joining the Group, he worked for a subsidiary of a company listed on The Stock Exchange of Hong Kong Limited.

Mr. Wan Tze Fan Terence, aged 42

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 Hong Kong Institute of Certified Public Accountants and a Certified Practicing Accountants of CPA Australia. Currently, he is the financial controller and company secretary of a company listed on The Stock Exchange of Hong Kong Limited.

Biographical Details of Directors

Mr. Liu Weichang, aged 48

Independent Non-executive Director

Mr. Liu joined the Group in May 2005. Mr. Liu held a degree from Shenzhen University. He has over 23 years experience in the field of corporate management. Mr. Liu is a director and standing deputy general manager of Shenzhen China Travel Service (Cargo) Hong Kong Ltd. At the same time, he is a director of Shenzhen CTS (Hong Kong) Transportation Ltd.

Mr. Gao Sheng Yu, aged 70

Independent Non-executive Director

Mr. Gao joined the Group in February 2006. He is an adviser of Guangdong Nuclear Power Joint Venture Co., Limited and Yangjiang nuclear power plant. Mr. Gao had over 45 years working experience in operating and constructing power plants in the PRC. He is a professorship senior engineer and graduated from Xi An Electric Power College (西安電力學校) and then studied at Tsinghua University majoring in Power Plant and Grid System (發電廠電網及系統專業).

Corporate Governance Report

(A) CORPORATE GOVERNANCE PRACTICES

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

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

(B) DIRECTORS' SECURITIES TRANSACTIONS

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

(C) BOARD OF DIRECTORS

The Company is governed by a Board of Directors, which has the responsibility for leadership and control 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, two other Executive Directors, and three independent Non-Executive Directors, and their biographical details have been set out in the section of Biographical Details of Directors.

There were 47 board meetings held during the year. The attendance of individual directors at the board meetings is set out below.

Board Member	**Attendance**
Executive Directors	
Mr. Yu Hongzhi, Chairman	27/47
Ms. Ma Zheng	42/47
Mr. Chiu Winerthan	42/47
Mr. Lang Fulai (resigned on 6 March 2006)	0/47
Independent Non-Executive Directors	
Mr. Wan Tze Fan Terence	18/47
Mr. Liu Weichang	6/47
Mr. Gao Sheng Yu (appointed on 17 February 2006)	7/47

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

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

(D) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

For the year 2006, we still did not have an officer with the title of "Chief Executive Officer" (the "CEO"). The Code envisages that the management of the Board should rest on the Chairman, whereas the day-to-day management of the Company's business should rest on the CEO. Mr. Yu Hongzhi, the Chairman, is also responsible for the operation of production plant in Yichang City: this constitutes a deviation of Code Provision A.2.1. The Board still holds the view that this arrangement is appropriate for the Company but we do not compromise accountability and independent decision making for this since we have an audit committee, which all members are independent non-executive directors, to help ensure the accountability and independence of Mr. Yu Hongzhi.

(E) APPOINTMENT AND RE-ELECTION OF DIRECTORS

At the AGM held on 27 April 2006, the Shareholders passed the resolutions to amend 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 first 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. Gao Sheng Yu ("Mr. Gao"). Except for Mr. Gao who was appointed for a specific term of two years, the other two were not 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 had discussed and concluded that the current practice of appointing non-executive directors without specific terms but otherwise subject to retirement and re-election was fair and reasonable, and therefore will not change the terms of appointment of Mr. Wan and Mr. Liu.

(G) REMUNERATION OF DIRECTORS

On 1 June 2005, the Board 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. These terms of reference were already reviewed by all Directors before they were adopted. The remuneration committee is now consisting only of the independent non-executive Directors, which include Mr. Wan, Mr. Liu and Mr. Gao (appointed on 17 February 2006). Mr. Wan is the chairman of the remuneration committee. The remuneration committee met once in 2006 and was attended by Mr. Wan and Mr. Liu. The role and function of the remuneration committee include determination of the specific remuneration packages of all executive Directors, including benefit in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration.

(H) RESPONSIBILITIES OF DIRECTORS

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

(I) NOMINATION OF DIRECTORS

During the year under review, all new candidates were recommended by the Chairman of the Company. However, the determination of the candidate's appointment was rested on the Board, and it was the practice of the Company to have at least 50 per cent. of the Board members, with at least one of independent non-executive director's attendance, to review and consider the application. As such, this will ensure the involvement of the majority of members of the Board, with the opinion of the independent non-executive director, in considering the candidate's application. The Board considered this practice is fair and reasonable, so no nomination committee was established during the year. In addition, the Board also made the recommendation for the rotation of the Director for the forthcoming AGM. On 17 February 2007, Mr. Gao was appointed as an independent non-executive director of the Company. As the Board still considered the current practice of appointment of directors as proper and appropriate for the Company, they will not consider to set up a nomination committee which is a deviation from the CG code.

(J) AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises three members, Mr. Wan, Mr. Liu and Mr. Gao (appointed on 17 February 2006). All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Wan.

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

Member	**Attendance**
Mr. Wan Tze Fan Terence	4/4
Mr. Liu Weichang	4/4
Mr. Gao Sheng Yu (by telephone)	1/4

The audit committee is satisfied with the findings of their review of the audit fees and audit process and has recommended to the Board the re-appointment of the existing auditors in 2007 at the forthcoming Annual General Meeting.

The Group's 2006 annual report, 2006 quarterly report and 2006 half-yearly report have been reviewed by the audit committee.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent auditors' report on page 35 to page 36.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2006.

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

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

(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 auditor, including whether such non-audit functions can lead to any potential material adverse effect on the Company. During the year under review, an amount of approximately HK$430,000 (2005: HK$533,000) was charged to the Group's income statement for the year ended 31 December 2006. The amount comprised non-audit service fee of HK$70,000 which covered the service rendered in connection with a major transaction of the Company. In addition, we also appoint a local audit company to review the internal control system which the fee is not yet charged.

(L) INTERNAL CONTROL

It was known by the Directors of the Company that they have overall responsibility for the Company's internal control, financial control and risk management and shall monitor its effectiveness from time to time. Therefore, the Company has already adopted a well-designed internal control system to safeguard the assets of the Company and the shareholders' investment and to ensure the reliability of financial reporting as well as compliance with the relevant requirement of GEM Listing Rules. In addition, during the year, we appointed a local auditing firm to review our existing operations so that the effectiveness of our internal control system, financial control and risk management could be assured. The auditors reports several findings and recommendation relating to proper documentations of some records and others risk-management related matters, all these were addressed in their internal control report and will presented by the Board to our Audit Committee for their reviews. However, the Board considers that the existing internal control system of the Group basically covers the current operating conditions of the Group. However, with sustained development of the enterprise and a continue increase in the management standard of the Group, the internal control system shall be continued revising and improving.

(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.

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 37 to 95.

The directors do not recommend the payment of a dividend.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 26 to the financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 27 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company had reserves available for distribution amounted to approximately HK$68,699,000 as calculated in accordance with the Companies Law (2001 Revision) of the Cayman Islands (2005: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group 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 96.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

DIRECTORS

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

EXECUTIVE DIRECTORS

Mr. Yu Hongzhi
Ms. Ma Zheng
Mr. Lang Fulai *(resigned on 6 March 2006)*
Mr. Chiu Winerthan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wan Tze Fan Terence
Mr. Liu Weichang
Mr. Gao Sheng Yu *(appointed on 17 February 2006)*

In accordance with article 87(1) of the Company's Articles of Association, Mr. Yu Hongzhi and Mr. Wan Tze Fan Terence will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election. 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

Brief biographical details of directors are set out on page 13 to page 14.

DIRECTORS' SERVICE CONTRACTS

Mr. Chiu Winerthan, executive director, has entered into a service contract with the Company for a term of two years commenced on 1 April 2005 and is subject to termination by either party giving not less than three months' written notice. This service contract is exempt from the shareholders' approval requirement under Rule 17.90 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "GEM Listing Rules").

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 26(g) 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 2006, 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:

(i) Long position in the ordinary shares of HK$0.00125 each in the Company as at 31 December 2006:

	Number of ordinary shares held		
Name of director	**Type of interests**	**Number of ordinary shares**	**Approximate percentage of interests**
Mr. Yu Hongzhi	Corporate *(Note)*	2,576,194,460	37.8%

Note:

These shares are held by Future Advance Holdings Limited ("Future Advance"). Future Advance is beneficially owned as to 37.5% by China Zong Heng Holdings Limited (which in turn is 100% beneficially owned by Mr. Yu Hongzhi) and as to 12.5% by Ms. Ma Zheng who is the sole director of Future Advance.

(ii) Long position in the underlying shares or debentures of the Company as at 31 December 2006:

Name of directors	Type of interests	Description of derivatives	Number of underlying shares	Approximate percentage of interests
Mr. Yu Hongzhi	Corporate	Convertible bond *(Note 1)*	313,503,280	4.6%
	Beneficial	Share option *(Note 2)*	76,000,000	1.1%
Ms. Ma Zheng	Beneficial	Share option *(Note 2)*	54,000,000	0.8%
Mr. Chiu Winerthan	Beneficial	Share option *(Note 2)*	20,000,000	0.3%

Notes:

1. On 27 April 2006, by an instrument dated the same date, the Company created and issued in favour of Future Advance a convertible bond in the principal amount of HK$6,270,065.6 pursuant to a subscription agreement dated 24 February 2006 entered into between the Company and Future Advance. Details of which have been set out in the announcement dated 28 February 2006. These shares represent the maximum number of new shares, which may be converted from the said convertible bond held by Future Advance as at 31 December 2006. Mr. Yu Hongzhi is therefore deemed to be interested in these underlying shares under the SFO as well.

2. On 3 April 2006, a total of 7,500,000 share options were conditionally granted as to 3,800,000 share options to Mr. Yu Hongzhi, as to 2,700,000 share options to Ms. Ma Zheng and as to 1,000,000 share options to Mr. Chiu Winerthan pursuant to a share option scheme adopted on 28 November 2001 by a written resolution of the then shareholders of the Company which confers discretionary power to the Directors to grant options to any Eligible Persons (including the full-time employees and any director of the Company) as defined in share option scheme. Details of the share options granted are set out under the heading "Share Option" below. As a result of the share subdivision becoming

effective on 1 August 2006, each option granted has been adjusted to the effect of conferring the right to subscribe for 20 subdivided shares. 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 was obtained from the Listing Committee of the Stock Exchange.

Save as disclosed above, as at 31 December 2006, none of the directors and chief executive of the Company had any 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. For further details of these, please refer to the announcement dated 17 March 2004. As at 31 December 2006, 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 also 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 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.

At 31 December 2006, the number of shares in respect of which options had been granted under the scheme was 176 million (2005: Nil), representing 2.58 per cent (2005: Nil) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the scheme is not permitted to exceed 10 per cent of the shares of the Company in issue as at the date of approval of the scheme, without prior approval from the Company's shareholders. However, the total number of shares available for issue under the scheme is approximately 681,246,720, representing approximately 10% of the issued share capital as at the date of this annual report. The number of shares in respect of which options may be granted to any individual in any 12-month period year is not permitted to exceed 1 per cent of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1 per cent of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

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

Details of the share options conditionally granted by the Company pursuant to the Post-Scheme and the options outstanding as at 31 December 2006 were as follows:

Grantees	Date granted	Balance as at 1 January 2006	Granted during the year '000	Exercised during the year	Lapsed during the year	Balance as at 31 December 2006 '000	Period during which the options are exercisable	Exercise price per share
Mr. Yu Hongzhi (Director)	3 April 2006	–	3,800	–	–	3,800	3 April 2006 to 27 November 2011	HK$0.053
Ms. Ma Zheng (Director)	3 April 2006	–	2,700	–	–	2,700	3 April 2006 to 27 November 2011	HK$0.053
Mr. Chiu Winerthan (Director)	3 April 2006	–	1,000	–	–	1,000	3 April 2006 to 27 November 2011	HK$0.053
Employees	3 April 2006	–	1,300	–	–	1,300	3 April 2006 to 27 November 2011	HK$0.053
		–	8,800	–	–	8,800		

Notes:

1. At the date before the options were granted, 31 March 2006, the market value per share was HK$0.053. The value of the options granted to the respective parties is as follows:

	HK$'000
Director Mr. Yu Hongzhi:	4,028
Director Ms. Ma Zheng:	2,862
Director Mr. Chiu Winerthan:	1,060
Continuous contract employees:	1,378

2. On 3 April 2006, a total of 8,800,000 share options were conditionally granted as to 3,800,000 share options to Mr. Yu Hongzhi, as to 2,700,000 share options to Ms. Ma Zheng and as to 1,000,000 share options to Mr. Chiu Winerthan, who are executive directors and as to 1,300,000 share options to two full-time employees. As a result of the share subdivision becoming effective on 1 August 2006, each options granted has been conferred the right to the relevant optionholders to subscribe for 20 subdivided shares.

3. All the options offered on 3 April 2006 ("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 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. After the share subdivision being effective on 1 August 2006, the exercise price per share was adjusted from HK$1.064 to HK$0.053.

The fair value of the options granted in the current year, measured at the date of grant 3 April 2006, totalled approximately HK$1,531,000. The following significant assumptions were used to derive the fair value, using the Black-Scholes-Merton Option Pricing Model:

a) The spot price was extracted from Bloomberg as at the date of valuation.

b) The exercise price of the share options is determined and given by the decision of the Board of the Company.

c) The risk free rates were determined with reference to the Hong Kong Government Bond Yield with similar duration as extracted from Bloomberg.

d) As stated in the Share Option Scheme of the Company, the share options granted were all call options.

e) Expected Option Period was determined by the different exercise date and analysis forecast of the Company.

f) The historical price volatility of the share price of the Company on the relevant grant date was extracted from Bloomberg based on 390 trading days.

g) The expected dividend yield was based on historical dividend payment record of the Company and consensus from analysis forecast as extracted from Bloomberg.

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

The Black-Scholes-Merton Option Pricing Model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share potions.

Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

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 2006, 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:

(i) Long position in the ordinary shares of HK$0.00125 each in the Company as at 31 December 2006:

Name of shareholders	Type of interests	Number of the shares held	Approximate percentage of issued share capital
Future Advance Holdings Limited	Beneficial	2,576,194,460	37.8%
China Zong Heng Holdings Limited	Corporate *(Note)*	2,576,194,460	37.8%

Note:

These shares are held by Future Advance. Future Advance is the only substantial shareholder which is beneficially owned as to 37.5% by China Zong Heng Holdings Limited (which in turn is 100% beneficially owned by Mr. Yu Hongzhi), as to 12.5% by Ms. Ma Zheng who is the sole director of Future Advance, as to 27% by Zhong Nan Mining Group Limited (which in turn is 100% beneficially owned by Mr. Zhang Lei), as to 13% by Mr. Wu Yong Jin and as to the remaining 10% by Ms. Ma Yi (as at 31 December 2006, Ms. Ma Yi personally held 20,000,000 shares of the Company, representing 0.29% of the issued share capital of the Company).

(ii) Long position in the underlying shares or debentures of the Company as at 31 December 2006:

Name of shareholders	Type of interests	Description of derivatives	Number of underlying shares	Approximate percentage of interests
Future Advance Holdings Limited	Beneficial	Convertible bond *(Note 1)*	313,503,280	4.6%
China Zong Heng Holdings Limited	Corporate	Convertible bond *(Note 1)*	313,503,280	4.6%
胡玉 (Ms. Hu Yu)#	Beneficial	Warrants *(Note 2)*	473,088,000	6.9%

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) and as to 12.5% by Ms. Ma Zheng who is the sole director of Future Advance.

2. On 18 August 2005, 胡玉 (Ms. Hu Yu)#, a private investor of the Company, entered into a warrant placing agreement with the Company pursuant to which 胡玉 (Ms. Hu Yu)# is entitled to subscribe for 23,654,400 shares at an initial exercise price of HK$0.32 per share within a period of two years commencing from the date of issue of the warrants which was 4 October 2005. Due to the share subdivision effective on 1 August 2006, each warrant has been adjusted to the effect of conferring right to 胡玉 (Ms. Hu Yu)# the right to subscribe for 20 subdivided share and the exercise price was adjusted to HK$0.015 per subdivided share on the close of the business on 31 July 2006.

Save as disclosed above, as at 31 December 2006, the directors are not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or who had an interest, directly or indirectly, in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or any other substantial shareholders whose interests or short position were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

None of the Company's directors or their respective associates (as defined in the GEM Listing Rules) or the existing shareholders, which, to the knowledge of the directors of the Company, holding more than 5% of the Company's issued share capital, had any interests in the Group's five largest customers or suppliers at any time during 2006.

CORPORATE GOVERNANCE

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 of 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 control system of the Group. The audit committee comprises three members, Mr. Wan Tze Fan Terence, Mr. Liu Weichang and Mr. Gao Sheng Yu who are the independent non-executive Directors of the Company. During the year, the audit committee of the Company ("the Audit Committee") held four meetings and performed duties including reviewing the Group's annual report, half-yearly report, quarterly report and announcements. After reviewing the Group's financial statements for the year ended 31 December 2006, the Audit Committee is of the opinion that the financial statements of the Company and the Group for the year ended 31 December 2006 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. Gao Sheng Yu who are the independent non-executive directors of the Company.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the connected transactions during the year are included in note 31 to the financial statements, which included all the details required to be disclosed pursuant to the Rule 20.45 of the GEM Listing Rules.

COMPETITION AND CONFLICT OF INTERESTS

Mr. Yu Hongzhi, the executive director of the Company, is the director and legal representative of 宜昌弘訊管業有限公司 ("Yichang HongXun Conduit and Calling Company Limited")#, which is engaged in selling and producing PE pipes in China. Mr. Yu Hongzhi was not the controlling shareholder of 宜昌弘訊管業有限公司. Save as disclosed, as at 31 December 2006, none of the Directors, management shareholders, substantial shareholders and any of their respective associates has engaged in any business that competes or may compete directly or indirectly, with the business of the Group, or has or may have any other conflicts of interest with the Group during the year ended 31 December 2006.

CONTINGENT LIABILITIES

As at 31 December 2006, the directors of the Company were not aware of any material contingent liabilities.

SUBSEQUENT EVENTS

Details of the subsequent events are disclosed in the note 32 of this financial statements.

AUDITORS

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Messrs. Grant Thornton as auditors of the Company.

On behalf of the board

Yu Hongzhi
Chairman

Hong Kong, 23 March 2007

Independent Auditors' Report

Grant Thornton
均富會計師行

Certified Public Accountants
Member of Grant Thornton International

To the members of China Primary Resources Holdings Limited
(formerly known as China Advance Holdings Limited)
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Primary Resources Holdings Limited (the "Company") set out on pages 37 to 95, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

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

Opinion

In our opinion, the 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 2006 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.

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

23 March 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Continuing operations:			
Revenue	5	**34,731**	24,389
Other revenue	7	**1,077**	27,995
Cost of trading merchandise sold		**(9,081)**	(11,733)
Raw materials and consumables used		**(16,979)**	(11,578)
Staff costs, including directors' remuneration	14	**(4,109)**	(1,884)
Depreciation		**(1,082)**	(531)
Amortisation on land use rights		**(602)**	(390)
Other operating expenses		**(9,530)**	(2,708)
Operating (loss)/profit		**(5,575)**	23,560
Finance costs	8	**(301)**	(159)
(Loss)/Profit before income tax	9	**(5,876)**	23,401
Income tax expense	10	**(135)**	(6)
(Loss)/Profit after tax from continuing operations		**(6,011)**	23,395
Discontinued operations:			
Profit/(loss) for the year from discontinued operations	11	**18**	(13)
(Loss)/Profit for the year		**(5,993)**	23,382
Attributable to:			
Equity holders of the Company	12	**(5,938)**	23,382
Minority interest		**(55)**	–
(Loss)/Profit for the year		**(5,993)**	23,382
(Loss)/Earnings per share for (loss)/profit from continuing and discontinued operations attributable to the equity holders of the Company during the year (2005: restated)	13		
Basic		**(HK0.1 cents)**	HK0.6 cents
Diluted		**N/A**	HK0.6 cents
(Loss)/Earnings per share for (loss)/profit from continuing operations attributable to the equity holders of the Company during the year (2005: restated)			
Basic		**(HK0.1 cents)**	HK0.6 cents
Diluted		**N/A**	HK0.6 cents

Consolidated Balance Sheet

As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	**30,314**	26,193
Land use rights	17	**29,102**	29,133
Deposits	32(a)	**18,627**	–
		78,043	55,326
Current assets			
Inventories	19	**2,539**	3,316
Trade receivables	20	**1,394**	117
Prepayments, deposits and other receivables		**5,443**	407
Tax refundable		**39**	9
Cash and cash equivalents	21	**88,204**	5,890
		97,619	9,739
Current liabilities			
Trade payables	22	**(467)**	(2)
Accruals and other payables		**(2,095)**	(2,814)
Loans from a shareholder	23	**–**	(400)
		(2,562)	(3,216)
Net current assets		**95,057**	6,523
Total assets less current liabilities		**173,100**	61,849
Non-current liabilities			
Loans from a shareholder	23	**–**	(5,498)
Convertible bonds	24	**(5,469)**	–
Deferred tax liabilities	25	**(19)**	(19)
		(5,488)	(5,517)
Net assets		**167,612**	56,332
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	26	**8,519**	5,914
Reserves	27	**154,442**	50,418
		162,961	56,332
Minority interest		**4,651**	–
Total equity		**167,612**	56,332

Yu Hongzhi
Director

Ma Zheng
Director

Balance Sheet
As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
ASSETS AND LIABILITIES			
Non-current asset			
Interests in subsidiaries	18	**312,390**	312,000
Current assets			
Prepayments, deposits and other receivables		**204**	–
Amounts due from subsidiaries	18	**–**	30,241
Cash and cash equivalents	21	**35,489**	1
		35,693	30,242
Current liabilities			
Accruals and other payables		**(438)**	(421)
Amounts due to subsidiaries	18	**(254,140)**	(313,776)
Loans from a shareholder	23	**–**	(400)
		(254,578)	(314,597)
Net current liabilities		**(218,885)**	(284,355)
Total assets less current liabilities		**93,505**	27,645
Non-current liabilities			
Loans from a shareholder	23	**–**	(5,498)
Convertible bonds	24	**(5,469)**	–
Net assets		**88,036**	22,147
EQUITY			
Share capital	26	**8,519**	5,914
Reserves	27	**79,517**	16,233
Total equity		**88,036**	22,147

Yu Hongzhi
Director

Ma Zheng
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Cash flows from operating activities			
(Loss)/Profit before income tax, including profit/(loss) from discontinued operations		**(5,858)**	23,388
Adjustments for:			
Depreciation	9	**1,987**	638
Amortisation on land use rights	9	**602**	390
Employee share-based compensation		**1,531**	–
Bank interest income	7	**(973)**	(1)
Loan interest expenses		**–**	159
Interest on convertible bonds	8	**262**	–
Operating (loss)/profit before working capital changes		**(2,449)**	24,574
Decrease/(Increase) in inventories		**777**	(3,316)
(Increase)/Decrease in trade receivables		**(1,277)**	609
(Increase)/Decrease in prepayments, deposits and other receivables		**(23,663)**	1,072
Increase/(Decrease) in trade payables		**465**	(395)
(Decrease)/Increase in accruals and other payables		**(719)**	2,376
Cash (used in)/generated from operations		**(26,866)**	24,920
Interest received		**973**	1
Overseas income taxes paid		**(165)**	(183)
Net cash (used in)/generated from operating activities		**(26,058)**	24,738
Cash flows from investing activities			
Purchases of property, plant and equipment		**(5,769)**	(25,980)
Purchases of land use rights		**–**	(29,526)
Proceeds from disposal of property, plant and equipment		**171**	–
Net cash used in investing activities		**(5,598)**	(55,506)
Cash flows from financing activities			
Proceeds from issuance of share capital		**100,058**	29,568
Proceeds from issuance of share capital – warrants		**741**	–
Shares issue expenses		**(124)**	(2,194)
Proceeds from issue of warrants		**7,785**	473
Increase in loans from a shareholder		**372**	32,468
Repayment of loans from a shareholder		**–**	(29,568)
Loan interest paid		**–**	(159)
Capital contributed by minority shareholder of a subsidiary		**4,706**	–
Net cash generated from financing activities		**113,538**	30,588
Net increase/(decrease) in cash and cash equivalents		**81,882**	(180)
Cash and cash equivalents at beginning of year		**5,890**	5,179
Effect of foreign exchange rate changes		**432**	891
Cash and cash equivalents at end of year	21	**88,204**	5,890

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Equity attributable to equity holders of the Company										
	Share capital	**Share premium account**	**Convertible bonds reserve**	**Employee compensation reserve**	**Statutory surplus reserve**	**Statutory public welfare reserve**	**Accumulated losses**	**Warrants reserve**	**Exchange translation reserve**	**Minority interest**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2005	2,957	45,080	–	–	34	17	(43,873)	–	–	–	4,215
Currency translation (Net income recognised directly in equity)	–	–	–	–	–	–	–	–	888	–	888
Profit for the year	–	–	–	–	–	–	23,382	–	–	–	23,382
Transfer to capital reserves	–	–	–	–	2,817	1,408	(4,225)	–	–	–	–
Total recognised income and expense for the year	–	–	–	–	2,817	1,408	19,157	–	888	–	24,270
Issuance of rights shares	2,957	26,611	–	–	–	–	–	–	–	–	29,568
Rights share issue expenses	–	(2,194)	–	–	–	–	–	–	–	–	(2,194)
Issuance of warrants	–	–	–	–	–	–	–	473	–	–	473
Balance at 31 December 2005 and 1 January 2006	5,914	69,497	–	–	2,851	1,425	(24,716)	473	888	–	56,332
Transfer to statutory surplus reserve	–	–	–	–	1,425	(1,425)	–	–	–	–	–
Currency translation (Net income recognised directly in equity)	–	–	–	–	481	–	–	–	1,032	–	1,513
Loss for the year	–	–	–	–	–	–	(5,938)	–	–	(55)	(5,993)
Transfer to capital reserves	–	–	–	–	353	–	(353)	–	–	–	–
Total recognised income and expense for the year	–	–	–	–	834	–	(6,291)	–	1,032	(55)	(4,480)
Capital contributed by minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	4,706	4,706
Issuance of new shares	2,602	97,456	–	–	–	–	–	–	–	–	100,058
Share issue expenses	–	(124)	–	–	–	–	–	–	–	–	(124)
Issuance of convertible bonds	–	–	1,063	–	–	–	–	–	–	–	1,063
Employee share-based compensation	–	–	–	1,531	–	–	–	–	–	–	1,531
Issuance of warrants	–	–	–	–	–	–	–	7,785	–	–	7,785
Exercise of warrants	3	772	–	–	–	–	–	(34)	–	–	741
Balance at 31 December 2006	8,519	167,601	1,063	1,531	5,110	–	(31,007)	8,224	1,920	4,651	167,612

1. GENERAL INFORMATION

China Primary Resources Holdings Limited (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 Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to a special resolution passed on 29 September 2006, the name of the Company was changed from "China Advance Holdings Limited 中國宏達控股有限公司" to "China Primary Resources Holdings Limited 中國基礎資源控股有限公司".

The principal activity of the Company is investment holding. The activities and other particulars of the principal subsidiaries are set out in note 18 to the financial statements.

The financial statements on pages 37 to 95 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. The financial statements include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("Listing Rules").

The financial statements for the year ended 31 December 2006 were approved by the board of directors on 23 March 2007.

2. ADOPTION OF NEW OR AMENDED HKFRSs

From 1 January 2006, the Group has adopted all the new and amended HKFRSs which are first effective on 1 January 2006 and relevant to the Group. The adoption of these new and amended HKFRSs did not result in significant changes in both the Group's and Company's accounting policies.

2.1 New or amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such HKFRSs will not result in material financial impact on the Group's financial statements.

Amendment to HKAS 1	"Presentation of Financial Statements" – Capital Disclosures [1]
HKFRS 7	"Financial Instruments: Disclosures" [1]
HKFRS 8	"Operating Segments" [7]
HK(IFRIC) Interpretation 7	"Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies" [2]
HK(IFRIC) Interpretation 8	"Scope of HKFRS 2" [3]
HK(IFRIC) Interpretation 9	"Reassessment of Embedded Derivatives" [4]
HK(IFRIC) Interpretation 10	"Interim Financial Reporting and Impairment" [5]
HK(IFRIC) Interpretation 11	"Group and Treasury Share Transactions" [6]
HK(IFRIC) Interpretation 12	"Service Concession Arrangements" [8]

[1] Effective for annual periods beginning on or after 1 January 2007

[2] Effective for annual periods beginning on or after 1 March 2006

[3] Effective for annual periods beginning on or after 1 May 2006

[4] Effective for annual periods beginning on or after 1 June 2006

[5] Effective for annual periods beginning on or after 1 November 2006

[6] Effective for annual periods beginning on or after 1 March 2007

[7] Effective for annual periods beginning on or after 1 January 2009

[8] Effective for annual periods beginning on or after 1 January 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared on the historical cost basis. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (together referred to as the "Group") made up to 31 December each year.

3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

3.3 Subsidiaries *(Continued)*

Minority interest represented the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

3.4 Foreign currency translation

The consolidated financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

3.4 Foreign currency translation *(Continued)*

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with in the exchange translation reserve in equity.

3.5 Revenue recognition

Revenue comprises the fair value for the sale of goods and rendering of services, net of rebates and discount. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sale of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Revenue from the provision of Game-On-Demand services and Massive Multiplayer Online Game ("MMOG") services are recognised at the time when the services are provided.

Interest income is recognised on a time-proportion basis using the effective interest method.

3.6 Borrowing costs

All borrowing costs are expensed as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

3.7 Property, plant and equipment

Buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease, and other items of plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation on plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	Over the lease terms
Leasehold improvements	4 years or over the lease terms, whichever is shorter
Computer equipment	5 years
Plant and machinery	10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

3.8 Impairment of assets

The Group's property, plant and equipment, land use rights and the Company's interests in subsidiaries are subject to impairment testing.

All assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions 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 assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is charged pro rata to the assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

3.9 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) *Classification of assets leased to the Group*

Assets that are held by the Group under leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon, at the inception of the lease, is accounted for as being held under a finance lease.

(ii) *Operating lease charges as the lessee*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight-line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

3.10 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries are set out below.

The Group's financial assets are classified into loans and receivables.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

3.10 Financial assets *(Continued)*

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Impairment of financial assets

At each balance sheet date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the income statement of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal recognised in the income statement of the period in which the reversal occurs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

3.11 Inventories

Inventories, comprising raw materials, supplies and purchased goods, are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method, and in case of finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

3.12 Accounting for income taxes

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the tax periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

3.12 Accounting for income taxes *(Continued)*

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3.13 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and demand deposits with banks.

3.14 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction cost associated with the issuing of shares are deducted from share premium (net of related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

3.15 Retirement benefit costs and short term employee benefits

Defined contribution plan

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independent administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

3.15 Retirement benefit costs and short term employee benefits *(Continued)*

Defined contribution plan (Continued)

The employees of the subsidiaries in the Peoples' Republic of China, except Hong Kong (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. Those subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Short term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. Non-accumulating compensated absences are not recognised until the time of leave.

3.16 Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the consolidated financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is ultimately recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in share option reserve. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

3.17 Financial liabilities

The Group's financial liabilities include trade and other payables, loans from a shareholder and convertible bonds. They are included in balance sheet line items as trade payables, accruals and other payables, loans from a shareholder and convertible bonds, under current or non-current liabilities.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Loans from a shareholder

Loans from a shareholder are recognised initially at fair value, net of transaction costs incurred. Loans from a shareholder are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Loans from a shareholder are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.17 Financial liabilities *(Continued)*

Convertible bonds

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

Convertible bonds issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate for similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the call option for conversion of the bond into equity, is included in equity as convertible bonds reserve.

The liability component is subsequently carried at amortised cost using the effective interest method. The equity component will remain in equity until conversion or redemption of the bond.

When the bond is converted, the convertible bonds reserve and the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the convertible bonds reserve is released directly to retained profits.

Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

3.18 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants awarded for the purpose of giving immediate financial support to the Group rather than as an incentive to undertake specific expenditure is recognised as income in the period in which the Group qualifies to receive it.

3.19 Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segment as the secondary reporting format.

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items as provision for tax and certain corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment.

In respect of geographical segment reporting, revenue are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

3.20 Related parties

A party is considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party:

- controls, is controlled by, or is under common control with, the Company or Group;
- has an interest in the Company that gives it significant influence over the Company or Group; or
- has joint control over the Company or Group;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

3.20 Related parties *(Continued)*

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Company or Group, or of any entity that is a related party of the Company or Group.

3.21 Discontinued operations

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

4.1 Depreciation

The Group depreciated the property, plant and equipment on a straight-line basis over the estimated useful lives of 4 to 50 years, starting from the date on which the assets are placed into productive use. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

4.2 Impairment of receivables

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

4.3 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 competitor actions in response to severe industry cycles. Management reassesses these estimations at the balance sheet date to ensure inventory is shown at the lower of cost and net realisable value.

5. REVENUE

Revenue, which is also the Group's turnover, represents the total invoiced value of goods supplied and income from provision of services. Revenue recognised during the year is as follows:

	2006	2005
	HK$'000	*HK$'000*
Continuing operations:		
Sales of composite materials	**14,920**	11,854
Manufacturing and sales of PE/FRP pipes	**19,811**	12,535
Sales of goods	**34,731**	24,389
Discontinued operations:		
Game-On-Demand service income	**–**	1
MMOG service income	**75**	224
Provision of services	**75**	225
Total Revenue	**34,806**	24,614

6. SEGMENT INFORMATION

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

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

- Manufacturing and sales of Polyethylene ("PE")/Fibre Glass Reinforced Plastic ("FRP") pipes
- Sales of raw materials and composite materials (collectively as the "Composite Materials")
- Game-On-Demand services
- MMOG services

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

There was no intersegment sale and transfer during the year (2005: Nil).

6. SEGMENT INFORMATION *(Continued)*

(a) Primary reporting format – Business segments

	Continuing operations						Discontinued operations							
	Sales of Composite Materials		Manufacturing of PE/FRP pipes		Total continuing operations		Game-On-Demand services		MMOG services		Total discontinued operations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**14,920**	11,854	**19,811**	12,535	**34,731**	24,389	**–**	1	**75**	224	**75**	225	**34,806**	24,614
Cost of services provided	**–**	–	**–**	–	**–**	–	**–**	(22)	**(57)**	(164)	**(57)**	(186)	**(57)**	(186)
Cost of goods sold	**(9,081)**	(11,733)	**(16,979)**	(11,578)	**(26,060)**	(23,311)	**–**	–	**–**	–	**–**	–	**(26,060)**	(23,311)
Other operating expenses	**(2,838)**	(519)	**(3,769)**	(549)	**(6,607)**	(1,068)	**–**	(28)	**–**	(24)	**–**	(52)	**(6,607)**	(1,120)
Segment results	**3,001**	(398)	**(937)**	408	**2,064**	10	**–**	(49)	**18**	36	**18**	(13)	**2,082**	(3)
Other operating income													**1,077**	27,995
Finance costs													**(301)**	(159)
Unallocated expenses													**(8,716)**	(4,445)
(Loss)/Profit before income tax													**(5,858)**	23,388
Income tax expense													**(135)**	(6)
(Loss)/Profit for the year													**(5,993)**	23,382
Assets														
Segment assets	**–**	–	**66,952**	57,511	**66,952**	57,511	**–**	–	**–**	–	**–**	–	**66,952**	57,511
Unallocated assets													**108,710**	7,554
Total assets													**175,662**	65,065
Liabilities														
Segment liabilities	**–**	–	**(467)**	(2)	**(467)**	(2)	**–**	–	**–**	–	**–**	–	**(467)**	(2)
Unallocated liabilities													**(7,583)**	(8,731)
Total liabilities													**(8,050)**	(8,733)
Other information														
Capital expenditure	**–**	–	**3,626**	54,713	**3,626**	54,713	**–**	–	**–**	–	**–**	–	**3,626**	54,713
Unallocated capital expenditures													**2,143**	793
Total capital expenditures													**5,769**	55,506
Depreciation for the year	**–**	–	**1,506**	449	**1,506**	449	**–**	–	**–**	–	**–**	–	**1,506**	449
Unallocated depreciation													**481**	189
Total depreciation													**1,987**	638
Amortisation on land use rights	**–**	–	**602**	390	**602**	390	**–**	–	**–**	–	**–**	–	**602**	390

6. SEGMENT INFORMATION *(Continued)*

(b) Secondary reporting format – Geographical segments

The Group's operations are located in two main geographical areas. The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods and services.

	Continuing operations						Discontinued operations			
					Total continuing operations					
	Hong Kong		The PRC				Hong Kong		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Revenue from external customers	**–**	–	**34,731**	24,389	**34,731**	24,389	**75**	225	**34,806**	24,614
Other segment information:										
Segment assets	**–**	838	**175,662**	64,227	**175,662**	65,065	**–**	–	**175,662**	65,065
Capital expenditure	**–**	1	**5,769**	55,505	**5,769**	55,506	**–**	–	**5,769**	55,506

7. OTHER REVENUE – continuing operations

	2006	2005
	HK$'000	*HK$'000*
Government grants	**–**	27,991
Bank interest income	**973**	1
Sundry income	**104**	3
	1,077	27,995

8. FINANCE COSTS – continuing operations

	2006	2005
	HK$'000	*HK$'000*
Interest charges on		
– loans from a shareholder	**39**	159
– convertible bonds *(Note 24)*	**262**	–
	301	159

9. (LOSS)/PROFIT BEFORE INCOME TAX – continuing operations

	2006	2005
	HK$'000	*HK$'000*
(Loss)/Profit before income tax is arrived at after charging/(crediting):		
Operating lease charges:		
– Land and building	**554**	547
Amortisation of land use rights	**602**	390
Cost of inventories recognised as expenses	**26,060**	23,311
Depreciation *(Note)*	**1,987**	638
Auditors' remuneration	**443**	313
Net exchange (gain)/loss	**–**	(5)

Note: Depreciation expense of approximately HK$905,000 (2005: HK$107,000) has been expensed in cost of goods sold.

10. INCOME TAX EXPENSE – continuing operations

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2005: Nil).

During the year, taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdiction in which the Group operates.

10. INCOME TAX EXPENSE – continuing operations *(Continued)*

In accordance with various approval documents issued by the State Tax Bureau and the Local Tax Bureau of the PRC, 宜昌富連江複合材料有限公司, a wholly-owned subsidiary of the Company, established as a wholly foreign-owned enterprise in the PRC, is entitled to an exemption from the PRC state and local corporate income tax for the first two profitable financial years of its operation and thereafter a 50% relief from the state corporate income tax of the PRC for the following three financial years (the "Tax Holiday"). Upon expiry of the Tax Holiday, the usual PRC corporate income tax rate is 33%, comprising a state corporate income tax rate of 30% and a local corporate income tax rate of 3%. No provision for PRC income tax has been made as the subsidiary was exempted from PRC income tax during the year.

	2006	2005
	HK$'000	*HK$'000*
Overseas taxation		
– under provision in prior year	**135**	6

The Group has tax losses arising in Hong Kong of approximately HK$40,064,000 (2005: HK$35,856,000) and overseas of approximately HK$1,829,000 (2005: HK$1,035,000) that are available for offsetting against future taxable profits of the companies in which the losses arose indefinitely and for 5 years, respectively. Deferred tax assets have not been recognised in respect of these losses as they have arisen in group companies that have been loss-making for some time.

10. INCOME TAX EXPENSE – continuing operations *(Continued)*

Reconciliation between tax expense and accounting (loss)/profit, including profit/(loss) from discontinued operations before income tax, at applicable tax rates:

	2006	2005
	HK$'000	*HK$'000*
(Loss)/Profit before income tax, including profit/(loss) from discontinued operations before income tax	**(5,858)**	23,388
Tax on (loss)/profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**(782)**	3,325
Tax effect of non-deductible expenses	**1,135**	13,503
Tax effect of non-taxable revenue	**(876)**	(17,286)
Tax effect of tax losses not recognised	**523**	458
Under provision in prior year	**135**	6
Income tax expense	**135**	6

11. DISCONTINUED OPERATIONS

The Group had agreed to abandon and discontinue the business line of Game-On-Demand services and MMOG services during the year.

An analysis of the result of discontinued operations is as follows:

	2006 **HK$'000**	2005 HK$'000
Revenue	**75**	225
Expenses	**(57)**	(238)
Profit/(Loss) before income tax of discontinued operations	**18**	(13)
Income tax expense	**–**	–
Profit/(Loss) for the year from discontinued operations	**18**	(13)
Operating cash flows	**18**	(13)
Investing cash flows	**–**	–
Financing cash flows	**–**	–
Total cash flows	**18**	(13)

12. (LOSS)/PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss attributable to equity holders of the Company of approximately HK$5,938,000 (2005: profit of approximately HK$23,382,000), a loss of approximately HK$45,165,000 (2005: loss of approximately HK$1,821,000) has been dealt with in the financial statements of the Company.

13. (LOSS)/EARNINGS PER SHARE

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

	2006	2005
	HK$'000	*HK$'000*
Earnings		
For continuing and discontinued operations based on the (loss)/profit for the year attributable to the equity holders of the Company	**(5,938)**	23,382
For continuing operations based on the (loss)/profit for the year from continuing operations less results attributable to minority interests	**(5,956)**	23,395

	2006	2005
	'000	*'000*
		(as adjusted)
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic (loss)/earnings per share	**6,231,001**	3,864,773
Effect of dilutive potential ordinary shares:		
Warrants		44,411
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share		3,909,184

Diluted loss per share for the year ended 31 December 2006 has not been disclosed as the warrants, share options and convertible bonds outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

The weighted average number of shares for the purposes of calculating basic and diluted earnings per share for the year 2005 has been adjusted to reflect the share subdivision in 2006 as detailed in note 26(e) to the financial statements.

14. EMPLOYEE BENEFIT EXPENSE – continuing operations (including directors' remuneration)

	2006	2005
	HK$'000	*HK$'000*
Wages and salaries	**2,529**	1,840
Share options granted to directors and employees	**1,531**	–
Pension costs – defined contribution plans	**49**	44
	4,109	1,884

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS – continuing operations

15.1 Executive directors and non-executive directors

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefit scheme contribution *HK$'000*	Total *HK$'000*
2006				
Executive directors				
Mr. Chiu Winerthan	–	598[(a)]	12	610
Ms. Ma Zheng	–	481[(b)]	–	481
Mr. Yu Hongzhi	–	678[(b)]	–	678
Mr. Lang Fulai[3]	–	–	–	–
	–	1,757	12	1,769
Independent non-executive directors				
Mr. Wan Tze Fan Terence	120	–	–	120
Mr. Liu Weichang[2]	–	–	–	–
Mr. Gao Sheng Yu[1]	–	–	–	–
	120	–	–	120
Total	120	1,757	12	1,889

Notes:

(a) The amount includes the share option cost of approximately HK$178,000.

(b) The amount represents the share option cost only.

(c) There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS – continuing operations

(Continued)

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

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefit scheme contribution HK$'000	Total HK$'000
2005				
Executive directors				
Mr. Chiu Winerthan	–	360	8	368
Ms. Ma Zheng	–	–	–	–
Mr. Yu Hongzhi	–	–	–	–
Mr. Lang Fulai[3]	–	–	–	–
	–	360	8	368
Independent non-executive directors				
Mr. Wan Tze Fan Terence	120	–	–	120
Mr. Liu Weichang[2]	–	–	–	–
Mr. Zhang Hongru[4]	106	–	–	106
Mr. Zhou Guang Qi[4]	–	–	–	–
	226	–	–	226
Total	226	360	8	594

Notes:

1 newly appointed during the year ended 31 December 2006

2 newly appointed during the year ended 31 December 2005

3 resigned during the year ended 31 December 2006

4 resigned during the year ended 31 December 2005

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS – continuing operations

(Continued)

15.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2005: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: three) individuals during the year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Basic salaries, share options and other benefits	**673**	1,311
Discretionary bonuses	**342**	94
Retirement benefit scheme contributions	**21**	37
	1,036	1,442

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
Nil – HK$1,000,000	**2**	3

During the year, no emoluments were paid by the Group to the director or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2005: Nil).

16. PROPERTY, PLANT AND EQUIPMENT – Group

	Buildings	Leasehold improvements	Computer equipment	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005							
Cost	–	635	739	–	110	–	1,484
Accumulated depreciation	–	(242)	(355)	–	(35)	–	(632)
Net book amount	–	393	384	–	75	–	852
Year ended 31 December 2005							
Opening net book amount	–	393	384	–	75	–	852
Additions	20,354	–	113	4,833	–	680	25,980
Depreciation	(134)	(211)	(141)	(104)	(22)	(26)	(638)
Exchange difference	(1)	–	2	(1)	–	(1)	(1)
Closing net book amount	20,219	182	358	4,728	53	653	26,193
At 31 December 2005							
Cost	20,354	635	852	4,833	110	680	27,464
Accumulated depreciation	(134)	(453)	(496)	(104)	(57)	(26)	(1,270)
Exchange difference	(1)	–	2	(1)	–	(1)	(1)
Net book amount	20,219	182	358	4,728	53	653	26,193
Year ended 31 December 2006							
Opening net book amount	20,219	182	358	4,728	53	653	26,193
Additions	1,400	–	1,590	2,226	103	450	5,769
Disposals, net	–	–	(24)	(147)	–	–	(171)
Depreciation	(953)	(124)	(178)	(553)	(40)	(139)	(1,987)
Exchange difference	396	–	9	92	–	13	510
Closing net book amount	21,062	58	1,755	6,346	116	977	30,314
At 31 December 2006							
Cost	21,754	635	2,413	6,897	213	1,130	33,042
Accumulated depreciation	(1,087)	(577)	(669)	(642)	(97)	(165)	(3,237)
Exchange difference	395	–	11	91	–	12	509
Net book amount	21,062	58	1,755	6,346	116	977	30,314

17. LAND USE RIGHTS – Group

The Group's interest in land use rights represent prepaid operating lease payments and their net book value is analysed as follow:

	2006	2005
	HK$'000	HK$'000
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	29,102	29,133
Opening net carrying amount	29,133	–
Additions	–	29,526
Amortisation on land use rights	(602)	(390)
Exchange difference	571	(3)
Closing net carrying amount	29,102	29,133

18. INTERESTS IN SUBSIDIARIES – COMPANY

	2006	2005
	HK$'000	HK$'000
Unlisted investments, at cost	319,181	318,791
Less: Impairment loss	(6,791)	(6,791)
	312,390	312,000
Amounts due from subsidiaries	71,509	60,466
Less: Provision for impairment	(71,509)	(30,225)
	–	30,241
Amounts due to subsidiaries	(254,140)	(313,776)

The balances with subsidiaries are unsecured, interest-free and repayable on demand.

18. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

Particulars of the principal subsidiaries as at 31 December 2006 are as follows:

Name	Place of incorporation and operation	Particulars of issued/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
e-gameasia.com Limited	British Virgin Islands ("BVI")	10,279,450 ordinary shares of HK$1 each	100%	–	Investment holding
Billybala Software (BVI) Limited	BVI	1 ordinary share of US$0.01 each	100%	–	Investment holding
宜昌富連江複合材料有限公司 *(Note)*	The PRC	HK$32,380,000	–	100%	Trading of merchandise and manufacturing of PE/FRP pipes
Shoukong Group Limited	BVI	20,000,000 ordinary shares of US$1 each	100%	–	Inactive
Sure Whole Investments Limited	BVI	20,000,000 ordinary shares of US$1 each	100%	–	Inactive
宜昌首控實業有限公司 *(Note)*	The PRC	HK$60,000,000	–	100%	Inactive
宜昌新首鋼貴金屬礦業有限公司 *(Note)*	The PRC	RMB30,000,000	–	52%	Inactive

Note:

宜昌富連江複合材料有限公司 is a wholly foreign-owned enterprise established in the PRC to be operated for 10 years up to June 2014.

宜昌首控實業有限公司 is a wholly foreign-owned enterprise established in the PRC to be operated for 15 years up to November 2020.

宜昌新首鋼貴金屬礦業有限公司 is a limited liability company established in the PRC to be operated for 15 years up to August 2021.

18. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

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

19. INVENTORIES – Group

	2006	2005
	HK$'000	*HK$'000*
Raw materials	**2,337**	3,316
Finished goods	**202**	–
	2,539	3,316

20. TRADE RECEIVABLES – Group

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 for a period of one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

The aging analysis of the trade receivables is as follows:

	2006	2005
	HK$'000	*HK$'000*
Within 30 days	**639**	8
31 – 60 days	**755**	2
61 – 90 days	**–**	–
Over 90 days	**–**	107
	1,394	117

21. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at banks and in hand	**88,204**	5,890	**35,489**	1

Included in bank and cash balances of the Group is approximately HK$51,016,000 (2005: approximately HK$5,506,000) of bank balances denominated in Renminbi ("RMB") placed with banks in the PRC. RMB is not a freely convertible currency.

22. TRADE PAYABLES – Group

The aging analysis of the trade payables is as follows:

	2006	2005
	HK$'000	*HK$'000*
31-60 days	**453**	2
61-90 days	**14**	–
	467	2

23. LOANS FROM A SHAREHOLDER – Group and Company

On 19 January 2004, Future Advance Holdings Limited ("Future Advance") entered into a share and shareholders' loan sale agreement (the "Agreement") with Romson Limited ("Romson"), the immediate holding company of the Company as at 31 December 2003, as detailed in the Company's announcement dated 30 January 2004 (the "Announcement").

23. LOANS FROM A SHAREHOLDER – Group and Company

(Continued)

Pursuant to the Agreement, Future Advance agreed to purchase an aggregate of 313,597,030 ordinary shares of the Company from the Vendors (as defined in the Announcement). Upon the completion of the Agreement, Future Advance became the ultimate holding company of the Company. In addition, Future Advance also agreed to acquire from Romson the shareholders' loan at a consideration equivalent to the face value of the shareholders' loan as at the date of completion of the Agreement.

As at 31 December 2005, the loans from Future Advance amounted to HK$5,898,000, out of which HK$2,998,000 was unsecured, interest-free and not repayable within one year from the balance sheet date. HK$2,500,000 of total amount was unsecured, interest bearing at prime rate plus 1% per annum and not repayable within one year from the balance sheet date. The remaining HK$400,000 was unsecured, interest bearing at prime rate plus 1% per annum and repayable within one year from the balance sheet date of 31 December 2005.

During the year, the Company entered into an agreement with Future Advance which agreed to subscribe for convertible bonds of the Company. The entire amount of the loans from a shareholder was applied to set off against the total subscription price of the convertible bonds.

24. CONVERTIBLE BONDS – Group and Company

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

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

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

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

	2006	2005
	HK$'000	*HK$'000*
Nominal value of convertible bond	**6,270**	–
Equity component	**(1,063)**	–
Liability component on initial recognition	**5,207**	–
Interest expense *(note 8)*	**262**	–
Liability component at 31 December	**5,469**	–

The fair value of the liability component of the convertible bonds at 31 December 2006 amounted to approximately HK$5,358,000 (2005: Nil). The fair value was calculated using future cash flows discounted at a rate of 7.426%.

Interest expense on the bonds is calculated using the effective interest method by applying the effective interest rate of 7.474% to the liability component.

25. DEFERRED TAX LIABILITIES

Deferred tax is calculated in full on temporary differences under the liability method using a principal tax rate of 17.5% (2005: 17.5%). There was no movement in the deferred tax liabilities balances during 2006 and 2005, which represent accelerated tax depreciation. No deferred tax asset has been provided in the financial statements of both the Group and the Company as it is not probable that future taxable profit will be available against which these deductible temporary differences can be utilised.

At the balance sheet date, the major components of unrecognised deductible temporary differences are as follows:

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Difference between depreciation and depreciation allowance	**172**	161	**–**	–
Unutilised tax losses	**7,286**	6,438	**608**	303
Convertible bonds	**(140)**	–	**(140)**	–
	7,318	6,599	**468**	303

26. SHARE CAPITAL

	Notes	Number of shares of HK$0.005 each		Number of shares of HK$0.025 each		Number of shares of HK$0.00125 each		Share capital	
		2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
		'000	'000	**'000**	'000	**'000**	'000	**HK$'000**	HK$'000
Authorised:									
Ordinary shares									
at beginning of year		**-**	1,000,000	**5,000,000**	–	**-**	–	**125,000**	5,000
Share consolidation	*(a)*	**-**	(1,000,000)	**-**	200,000	**-**	–	**-**	–
Increase in authorised									
ordinary shares	*(b)*	**-**	–	**-**	4,800,000	**-**	–	**-**	120,000
Share subdivision	*(e)*	**-**	–	**(5,000,000)**	–	**100,000,000**	–	**-**	–
Ordinary shares at end of year		**-**	–	**-**	5,000,000	**100,000,000**	–	**125,000**	125,000

	Notes	Number of shares of HK$0.005 each		Number of shares of HK$0.025 each		Number of shares of HK$0.00125 each		Share capital	
		2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
		'000	'000	**'000**	'000	**'000**	'000	**HK$'000**	HK$'000
Issued and fully paid:									
Ordinary shares									
at beginning of year		**-**	591,360	**236,544**	–	**-**	–	**5,914**	2,957
Share consolidation	*(a)*	**-**	(591,360)	**-**	118,272	**-**	–	**-**	–
Issuance of rights shares	*(c)*	**-**	–	**-**	118,272	**-**	–	**-**	2,957
Issuance of new shares	*(d)*	**-**	–	**104,079**	–	**-**	–	**2,602**	–
Share subdivision	*(e)*	**-**	–	**(340,623)**	–	**6,812,460**	–	**-**	–
Warrants – proceeds from									
shares issued	*(f)*	**-**	–	**-**	–	**2,800**	–	**3**	–
Ordinary shares at end of year		**-**	–	**-**	236,544	**6,815,260**	–	**8,519**	5,914

26. SHARE CAPITAL *(Continued)*

Notes

(a) **Share consolidation**

Pursuant to a special resolution passed on 3 May 2005, five shares of HK$0.005 each in the issued and unissued share capital of the Company were consolidated into one consolidated share of HK$0.025 each. The authorised share capital of the Company remained at HK$5,000,000 but was divided into 200,000,000 shares of HK$0.025 each.

(b) **Increase of authorised ordinary shares**

Pursuant to a special resolution passed on 3 May 2005, the authorised share capital of the Company was increased from HK$5,000,000 dividend into 200,000,000 ordinary shares of HK$0.025 each to HK$125,000,000 by the creation of a further 4,800,000,000 shares of HK$0.025 each ranking pari passu in all respects with the consolidated shares of HK$0.025 each.

(c) **Issuance of rights shares**

A special resolution was passed on 3 May 2005 to approve a rights issue on the basis of one rights share for every one consolidated share of HK$0.025 each held by shareholders on the register of members on 3 May 2005 at an issue price of HK$0.25 per rights share, for the purposes of acquisition of industrial land in Yichang, the PRC. The rights issue resulted in the issue of 118,272,000 shares of HK$0.25 each for a total cash consideration, before share issue expenses, of approximately HK$30 million.

(d) **Issuance of new shares**

On 16 February 2006, 47,308,800 ordinary shares of HK$0.025 each in the share capital of the Company were issued to six independent third parties, who are independent of each other and are not connected persons of the Company, for cash at a premium of HK$0.29 per share. The issued share capital was then increased from approximately HK$5,914,000 to HK$7,096,000. The reason for this issue was to raise additional funds for the Group's general working capital and strengthening the financial position of the Company.

On 26 May 2006, the issued share capital of the Company was increased from approximately HK$7,096,000 to HK$8,175,000 by the issue of 43,145,626 ordinary shares of HK$0.025 each for cash at a premium of HK$1.475 per share to three independent third parties (namely Asia Bright International Limited, First South International Limited and Siberian Worldwide Limited), who are independent of each other and are not connected persons of the Company.

On 10 June 2006, the issued share capital of the Company was increased from approximately HK$8,175,000 to HK$8,516,000 by the issue of 13,624,934 ordinary shares of HK$0.025 each for cash at a premium of HK$1.475 per share to Main Concord Development Limited, an independent third party, who is not connected person of the Company. The main reason for issuance of these shares was intended to apply for investment in mining related business projects.

26. SHARE CAPITAL *(Continued)*

Notes (Continued)

(e) **Share subdivision**

Pursuant to an ordinary resolution passed on 31 July 2006, one share of HK$0.025 each in the issued and unissued share capital of the Company were subdivided into twenty shares of HK$0.00125 each. The authorised share capital of the Company remained at HK$125,000,000 but was divided into 100,000,000,000 shares of HK$0.00125 each.

(f) **Warrants – proceeds from shares issued**

On 21 December 2006, part of the warrants issued were exercised for 2,800,000 shares of HK$0.00125 each with an exercise price of HK$0.265 per warrant.

(g) **Share options**

As at 31 December 2006, the Group maintains share options scheme for employee compensation. All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options.

(i) On 28 November 2001, a share option scheme (the "Pre-Scheme") was approved pursuant to written resolutions of the Company. The purpose of the Pre-Scheme was to recognise the contribution of certain directors and employees of the Group to its growth.

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

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

On 28 November 2001, the Company granted pre-IPO share options under the Pre-Scheme to 5 former executive directors and 2 former non-executive directors to subscribe for a total of 33,440,000 shares, representing in aggregate approximately 5.7% of the issued share capital of the Company. No further options will be granted under the Pre-Scheme after the listing of the Company's shares on the GEM. 50% of the options granted may be exercised after the expiry of 12 months from 13 December 2001, and the remaining 50% of the options granted may be exercised after the expiry of 24 months from 13 December 2001, and in each case, not later than 10 years from the date of the grant of the options. Each grantee has paid HK$1 to the Company as consideration for such grant.

26. SHARE CAPITAL *(Continued)*

Notes (Continued)

(g) **Share options** *(Continued)*

During the year ended 31 December 2004, Future Advance made an offer for all outstanding share options under Rule 13 of the Hong Kong Code on Takeovers and Mergers as Future Advance was interested in approximately 71.27% of the then issued share capital of the Company immediately following the completion of the agreement.

Valid acceptances in respect of 33,440,000 options, which represented all the outstanding options of the Company, under the option offer were received at the close of the offer period on 17 March 2004. All the options tendered were then cancelled and extinguished. Accordingly, no share options were outstanding under the Pre-Scheme as at 31 December 2004.

(ii) On 28 November 2001, a further share option 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 of grant of the relevant option.

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.

26. SHARE CAPITAL *(Continued)*

Notes (Continued)

(g) Share options *(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 remains in force for a period of 10 years with effect from 28 November 2001.

At 31 December 2006, the number of shares in respect of which options had been granted under the scheme was 176 million (2005: Nil), representing 2.58% (2005: Nil) of the shares of the Company in issue at that date.

26. SHARE CAPITAL *(Continued)*

Notes (Continued)

(g) Share options *(Continued)*

Details of the share options conditionally granted by the Company pursuant to the Post-Scheme and the options outstanding as at 31 December 2006 were as follows:

Grantees	Date granted	Balance as at 1 January 2006	Granted during the year '000	Exercised during the year	Lapsed during the year	Balance as at 31 December 2006* '000	Period during which the options are exercisable	Exercise price per share*
Mr. Yu Hongzhi (Director)	3 April 2006	–	3,800	–	–	3,800	3 April 2006 to 27 November 2011	HK$0.053
Ms. Ma Zheng (Director)	3 April 2006	–	2,700	–	–	2,700	3 April 2006 to 27 November 2011	HK$0.053
Mr. Chiu Winerthan (Director)	3 April 2006	–	1,000	–	–	1,000	3 April 2006 to 27 November 2011	HK$0.053
Employees	3 April 2006	–	1,300	–	–	1,300	3 April 2006 to 27 November 2011	HK$0.053
		–	8,800	–	–	8,800		

* After the share subdivision being effective on 1 August 2006, the exercise price per share was adjusted from HK$1.064 to HK$0.053. The total number of shares of the Company to be issued upon exercise of the 8,800,000 outstanding options will be adjusted from 8,800,000 existing shares of HK$0.025 each to 176,000,000 subdivided shares of HK$0.00125 each.

The fair values of options granted during 2006 were determined using the Black-Scholes-Merton Option Pricing Model. Significant inputs into the calculation included a spot price of HK$1.04 and exercises price of HK$1.064. Furthermore, the calculation takes into account a volatility rate of 85.5% and nil expected dividend yield. Risk-free interest rate was determined at a range from 4.193% to 4.258%. The underlying expected volatility was extracted from Bloomberg based on 390 trading days.

In total, approximately HK$1,531,000 of employee compensation expense has been included in the consolidated income statement for 2006 (2005: Nil), the corresponding amount of which has been credited to employee compensation reserve (note 27). No liabilities were recognised on the equity-settled share-based payment transactions.

27. RESERVES

Group

	Share premium account (note (a)) HK$'000	Convertible bonds reserve HK$'000	Employee compensation reserve HK$'000	Statutory surplus reserve (note (b)) HK$'000	Statutory public welfare reserve (note (c)) HK$'000	Accumulated losses HK$'000	Warrants reserve (note (d)) HK$'000	Exchange translation reserve HK$'000	Total HK$'000
Balance at 1 January 2005	45,080	–	–	34	17	(43,873)	–	–	1,258
Currency translation (Net income recognised directly in equity)	–	–	–	–	–	–	–	888	888
Profit for the year	–	–	–	–	–	23,382	–	–	23,382
Transfer to capital reserves	–	–	–	2,817	1,408	(4,225)	–	–	–
Total recognised income and expense for the year	–	–	–	2,817	1,408	19,157	–	888	24,270
Issuance of rights shares	26,611	–	–	–	–	–	–	–	26,611
Rights share issue expenses	(2,194)	–	–	–	–	–	–	–	(2,194)
Issuance of warrants	–	–	–	–	–	–	473	–	473
Balance at 31 December 2005	69,497	–	–	2,851	1,425	(24,716)	473	888	50,418

27. RESERVES *(Continued)*

	Share premium account *(note (a))* HK$'000	Convertible bonds reserve HK$'000	Emplyee compensation reserve HK$'000	Statutory surplus reserve *(note (b))* HK$'000	Statutory public welfare reserve *(note (c))* HK$'000	Accumulated losses HK$'000	Warrants reserve *(note (d))* HK$'000	Exchange translation reserve HK$'000	Total HK$'000
Balance at 1 January 2006	69,497	–	–	2,851	1,425	(24,716)	473	888	50,418
Transfer to statutory surplus reserve	–	–	–	1,425	(1,425)	–	–	–	–
Currency translation (Net income recognised directly in equity)	–	–	–	481	–	–	–	1,032	1,513
Loss for the year	–	–	–	–	–	(5,938)	–	–	(5,938)
Transfer to capital reserves	–	–	–	353	–	(353)	–	–	–
Total recognised income and expense for the year	–	–	–	834	–	(6,291)	–	1,032	(4,425)
Issuance of new shares	97,456	–	–	–	–	–	–	–	97,456
Shares issue expenses	(124)	–	–	–	–	–	–	–	(124)
Issuance of convertible bonds	–	1,063	–	–	–	–	–	–	1,063
Employee share-based compensation	–	–	1,531	–	–	–	–	–	1,531
Issuance of warrants	–	–	–	–	–	–	7,785	–	7,785
Exercise of warrants	772	–	–	–	–	–	(34)	–	738
Balance at 31 December 2006	**167,601**	**1,063**	**1,531**	**5,110**	**-**	**(31,007)**	**8,224**	**1,920**	**154,442**

27. RESERVES *(Continued)*

Company

	Share premium account (note (e)) HK$'000	Convertible bonds reserve HK$'000	Employee compensation reserve HK$'000	Accumulated losses HK$'000	Warrants reserve (note (d)) HK$'000	Total HK$'000
At 1 January 2005	32,193	–	–	(39,029)	–	(6,836)
Premium on issue of rights shares	26,611	–	–	–	–	26,611
Rights share issue expenses	(2,194)	–	–	–	–	(2,194)
Issuance of warrants	–	–	–	–	473	473
Net loss for the year	–	–	–	(1,821)	–	(1,821)
At 31 December 2005 and 1 January 2006	56,610	–	–	(40,850)	473	16,233
Premium on issue of new shares	97,456	–	–	–	–	97,456
Shares issue expenses	(124)	–	–	–	–	(124)
Issuance of convertible bonds	–	1,063	–	–	–	1,063
Employee share-based compensation	–	–	1,531	–	–	1,531
Issuance of warrants	–	–	–	–	7,785	7,785
Exercise of warrants	772	–	–	–	(34)	738
Net loss for the year	–	–	–	(45,165)	–	(45,165)
At 31 December 2006	**154,714**	**1,063**	**1,531**	**(86,015)**	**8,224**	**79,517**

27. RESERVES *(Continued)*

(a) The share premium account of the Group includes: (i) the premium arising from 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 GEM of 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 PRC are required to transfer 10% of their profit after tax calculated in accordance with the PRC accounting regulations to the statutory surplus reserve until the reserve reaches 50% of their respective registered capital, upon which any further appropriation will be at the directors' recommendation. Such reserve may be used to reduce any losses incurred by the subsidiaries or be capitalised as paid-up capital of the subsidiaries.

(c) Prior to 1 January 2006, pursuant to the PRC Company Laws, subsidiaries of the Company established in the PRC are required to transfer 5% to 10% of their profit after tax calculated in accordance with PRC accounting regulations to the statutory public welfare reserve. The use of this reserve is restricted to capital expenditure incurred for staff welfare facilities. The statutory public welfare reserve is not available for distribution, except upon liquidation of the subsidiaries.

Starting from 1 January 2006, pursuant to certain amendments of the PRC Company Laws, subsidiaries of the Company are not allowed to establish the statutory public welfare reserve. Thus, the balance of statutory public welfare reserve of the Group was transferred to statutory surplus reserve during the year and the balance of the statutory public welfare reserve as at 31 December 2006 is nil (2005: HK$1,425,000).

(d) On 4 October 2005, the Company issued 23,654,400 non-listed warrants at the issue price of HK$0.02 per warrant. The warrants will mature in two years from the date of issue. Each warrant entitles the holder thereof to subscribe for one new share at initial exercise price of HK$0.32 per new share, payable in cash and subject to adjustment, at any time from 4 October 2005 to 3 October 2007. Consideration of HK$473,000 was received in respect of warrants during the year 2005. After the share subdivision being effective on 1 August 2006, the exercise price per share was adjusted from HK$0.32 to HK$0.015. Each warrant of the Company shall confer right to subscribe for 20 subdivided shares of HK$0.00125 each.

27. RESERVES *(Continued)*

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

During the year, 2,800,000 warrants has been exercised.

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

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

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

28. NON-CASH TRANSACTION

During the year, the Group settled the loans from Future Advance by way of issuance of convertible bonds of approximately HK$6,270,000.

29. CAPITAL COMMITMENTS

Group

As at 31 December 2006, the Group had the following capital commitments.

	2006	2005
	HK$'000	*HK$'000*
Property, plant and equipment		
– Contracted but not provided for	**148**	–
Proposed investment in a venture *(Note 32 (a))*		
– Contracted but not provided for	**971,000**	–
Proposed investment in a venture *(Note)*		
– Authorised but not contracted for	**59,501**	–
	1,030,649	–

Note: Sure Whole Investments Limited, a direct wholly-owned subsidiary of the Company, entered into heads of agreement with ASIA Resources Investment and Advisory Limited and Kondor Holdings Pty. Ltd. in relation to a possible investment in a joint venture company. Further details of the proposed investment are disclosed in the Company's announcements dated 5 September 2006 and 22 December 2006.

Company

The Company does not have any significant capital commitments as at 31 December 2006.

30. OPERATING LEASE COMMITMENTS

Group

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable by the Group as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**187**	439
In the second to fifth years	**–**	137
	187	576

The Group leases a number of properties under operating leases. The leases run for an initial period of one to two years, with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective lessors. None of the leases include contingent rentals.

Company

The Company does not have any significant operating lease commitments.

31. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions disclosed elsewhere in these financial statements, the Group entered into the following transactions with related parties during the year:

	Notes	**2006**	2005
		HK$'000	*HK$'000*
Loans interest paid to a shareholder	*(i)*	**39**	159
Convertible bond interest paid to a shareholder	*(ii)*	**262**	–

Notes:

(i) Future Advance has provided loans to the Group. Details of the loans are described in note 23.

(ii) During the year, the Company issued convertible bonds to Future Advance for approximately HK$6,270,000 (2005: Nil). Details of the convertible bonds are described in note 24.

31. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of key management personnel

	2006	2005
	HK$'000	*HK$'000*
Total remuneration of directors and other members of key management during the year	**3,407**	594

32. POST BALANCE SHEET EVENTS

(a) On 14 November 2006, 宜昌首控實業有限公司, a wholly-owned subsidiary of the Company, entered into an acquisition agreement with Great Ocean Real Estate Limited ("GORE"), pursuant to which 宜昌首控實業有限公司 has conditionally agreed to acquire from 宜昌泰鴻礦山科技有限公司, a wholly-owned subsidiary of GORE, 22.28% interest in the registered capital of 新首鋼資源控股有限公司 for an aggregate consideration of approximately HK$971 million.

On 2 February, 2007, 宜昌首控實業有限公司 entered into second supplemental deed with GORE to amend certain terms of the acquisition agreement, in particular the payment terms of the consideration. Pursuant to the second supplemental deed, the consideration would be satisfied by (i) cash of HK$18 million; and (ii) approximately 2,802 million preferred shares, which are convertible into preferred conversion shares at initial conversion rate of 1:1, subject to adjustments. Further details of the post balance sheet event are disclosed in the Company's announcement dated 2 February 2007.

As at 31 December 2006, an amount of approximately RMB19 million has been paid to 湖北惠覽律師事務所 as a deposit for the acquisition.

(b) On 3 January 2007, the Company and Future Advance entered into a term sheet with Lehman Brothers Commercial Corporation Asia Limited or its designated affiliates, as investor and arranger, in respect of the conditional issue of convertible bonds of maximum principal amount of approximately HK$246 million with coupon rate of 4.5% due 2010. The net proceeds from the issue of the convertible bonds will be used for general working capital.

33. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate strategies to manage the Group's exposure to market risk, including changes in interest rates and currency exchange rates. Generally, the Group introduces conservative strategies on its risk management. The Group's exposure to market risk is kept to a minimum. The Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

The Group's financial assets include cash and cash equivalents, deposits, other receivables and trade receivables. The Group's financial liabilities include trade and other payables, loans from a shareholder and convertible bonds.

(a) Interest rate risk

The interest rates and terms of the Group's loans from a shareholder and convertible bonds are disclosed in notes 23 and 24 respectively.

(b) Credit risk

All the Group's cash and cash equivalents are deposited with major banks located in Hong Kong and the PRC.

The carrying amounts of trade receivables and other receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. No other financial assets carry a significant exposure to credit risk. The Group has no significant concentration of credit risk.

(c) Foreign currency risk

The Group placed approximately HK$51,016,000, denominated in RMB, with banks in the PRC. Furthermore, most of the Group's purchases and sales are denominated in RMB. The directors believe that the foreign exchange exposure to RMB is not material due to stability of exchange rate between Hong Kong dollar and RMB. Hence, there is no need to make use of financial instrument for hedging purposes.

33. RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Fair values

The fair values of the Group's current financial assets and liabilities are not materially different from their carrying amount because of the immediate or short term maturity of these financial instruments. The fair values of non-current liabilities are not disclosed because the carrying values are not materially different from fair values.

(e) Liquidity

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

FINANCIAL SUMMARY

The following is a summary of the consolidated results and of the assets and liabilities of China Primary Resources Holdings Limited (Formerly known as China Advance Holdings Limited) (the "Company") and its subsidiaries (collectively referred to as 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 2006 *HK$'000*	Year ended 31 December 2005 *HK$'000*	Year ended 31 December 2004 *HK$'000*	Year ended 31 December 2003 *HK$'000*	Year ended 31 December 2002 *HK$'000*
Revenue	**34,806**	24,614	7,038	3,769	211
Other revenue	**1,077**	27,995	224	224	244
Operating expenses	**(41,440)**	(29,062)	(12,725)	(13,692)	(13,213)
Operating profit/(loss)	**(5,557)**	23,547	(5,463)	(9,699)	(12,758)
Finance costs	**(301)**	(159)	(11)	(122)	–
Profit/(Loss) before income tax	**(5,858)**	23,388	(5,474)	(9,821)	(12,758)
Income tax expense	**(135)**	(6)	(195)	107	–
Net profit/(loss) attributable to shareholders	**(5,993)**	23,382	(5,669)	(9,714)	(12,758)

ASSETS AND LIABILITIES

	31 December				
	2006 *HK$'000*	2005 *HK$'000*	2004 *HK$'000*	2003 *HK$'000*	2002 *HK$'000*
Total assets	**175,662**	65,065	8,235	3,531	9,296
Total liabilities	**(8,050)**	(8,733)	(4,019)	(5,955)	(2,006)
	167,612	56,332	4,216	(2,424)	7,290