PRIMARY RESOURCES

中國基礎資源控股有限公司

CHINA PRIMARY RESOURCES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8117)

ANNUAL REPORT 2007

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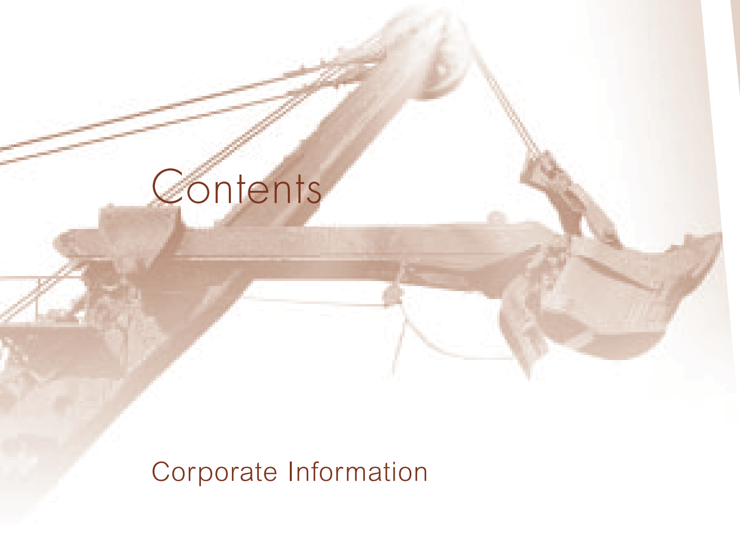
The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to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



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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

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

Independent Non-Executive Directors

Mr. Wan Tze Fan Terence
Mr. Liu Weichang
Mr. Gao Sheng Yu
Mr. Chung Chin Keung

Registered office, head office and principal place of business

Registered office

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

Head office and principal place of business

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

Company secretary

Mr. 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
Mr. Chung Chin Keung

Remuneration committee

Mr. Wan Tze Fan Terence
Mr. Liu Weichang
Mr. Gao Sheng Yu
Mr. Chung Chin Keung

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

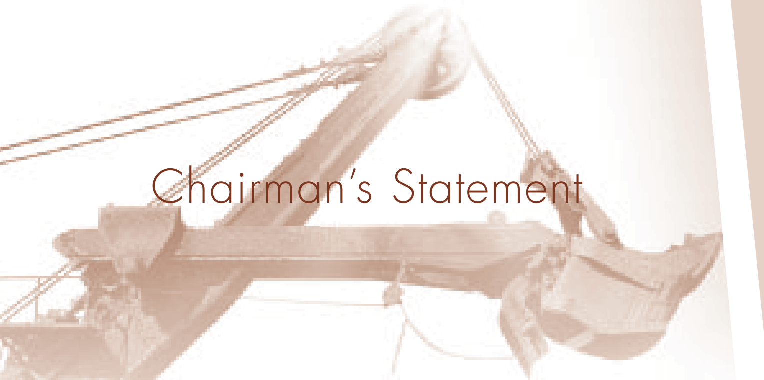
Codan Trust Company (Cayman) Limited

Auditor

Shu Lun Pan Horwath Hong Kong CPA Limited
Certified Public Accountants
2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Hong Kong share registrar

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



Chairman's Statement

It is my pleasure to present the annual results of China Primary Resources Holdings Limited (the "Company") together with its subsidiaries (collectively referred to as the "Group"), for the year ended 31 December 2007.

During the year of 2007, the Group was making an important step in extending the Group's business base into the mining business. The acquisition of the 22.28% interest in the registered capital of 新首鋼資源控股有限公司 (Xin Shougang Zi Yuan Holdings Limited)# ("Xin Shougang") was finally and successfully completed on 26 October 2007. To our Group, this progress not only brings the good profitable opportunities to the Group but also strengthens the relationship with one of the largest stated-owned mining enterprise – Shougang Group in China.

With this strategy partner, our next focuses are to acquire more valuable investment in mining business, and recently, we have the following progresses:

A. *The acquisition of a mining company in Mongolia (the "Mining Company")*

The Mining Company holds a mining licence which covers an aggregate area of 173 hectares in the mining area located at Mungun-Undur, Khentii Province ("the Mungun Project"). This Mungun Project's major deposit is high grade silver and low grade lead and zinc. The mineral deposit is estimated total 2.8Mt with average group of 79 g/t Ag (Silver) and additional metal credits with average grades of 1.9% Pb (lead), 1.4% Zn (zinc) and 0.2% Sn (tin). The metal credits contribute to an equivalent silver grade of 352 g/t Ag. This acquisition will be completed once all the conditions precedent are fulfilled. The details of which is stated in our announcement dated 17 March 2008.

It is because it is our first controlled mining investment, I considered that this acquisition should only be done when (i) the mining plan prepared by industry-recognised external adviser – Daye Nonferrous Design and Research Institute Co., Ltd. – was completed, (ii) the technical report prepared by an international and industry-recognised external adviser – Minarco-MineConsult – was completed and satisfactory opinions on the reserves and mining plan was given. In addition, an reputable legal adviser – Anderson & Anderson LLP was also hired to provide legal advice on all the Mongolia legal related matters. In that way, with all these professionals' advice, the risk and value of the investment can be assured. On the other hand, this acquisition also makes the Group becoming a significant investor in Mongolia, and in turn extends our arms into new developing and full of mining investment opportunities country.

B. Other mining investment opportunity

As it was stated in our announcement dated 20 December 2007, the Board has been notified by Xin Shougang, that they are going to acquire an iron ore project in Feng Ning County, Cheng De City, He Bei Province, the PRC.The mineral resources range of the iron ore project is about 4.7 Km^2 and the iron ore deposit contained 3,700Mt (million tones). They recently told us that the iron ore of this mine can upgrade the qualities of the product from their mine in Yichang and the price of which can be raised substantially. In addition, the proposed production scale is estimated to be 300,000 tone a year. We are informed by Xin Shougang that they are now preparing the detail mining operation plan, once completed, the acquisition may be finalized shortly. On the other hand, we might now need to forecast and be ready for the further capital requirement from Xin Shougang.

During the year of 2008, the Group will hire another mining expert to work with our own staff and to closely monitor the progress of the Mungun Project so as to ensure the mining operation in Mungun-Undur can be initiated as early as possible because we have a control stake in that project. This will be the first task we need to complete in 2008. However, we will not stop seeking other mining business investments for the Group.

As the Chairman of the Company, I believe that if we could leverage on our strategy partners' business connection and technology, and then stick to this business development route, the Group could be a leading mining and resources company in the near future. In this respect, I can assure you that all the team members of the Group will put all their best effort to increase our shareholders' return in the future.

APPRECIATION

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

MA Zheng
Chairman

Hong Kong, 25 March 2008

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 ("PE" Pipes) in the PRC.

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

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

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

Financial review

For the year ended 31 December 2007, the Group recorded a turnover of approximately HK$31,826,000, which represented a decrease of 8% while compared with that of last year's turnover of approximately HK34,731,000. The turnover in 2007 was mainly attributed from the trading and production of PE Pipes. This shows the management are in line with their plans in developing the PE Pipes business.

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

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

Business outlook and prospects

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

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

Liquidity and financial resources

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

Funding activity during the year

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

Subscription of convertible bonds

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

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

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

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

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

Gearing ratio

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

Exposure to fluctuations in exchange rates

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

Charge on group assets and contingent liabilities

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

Segment information

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

Capital structure

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

Management Discussion and Analysis

Significant investments

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

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

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

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

Employee information

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

Biographical Details of Directors and Senior Management

Ms. Ma Zheng, aged 41

Chairman and 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 18 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 52

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. Wong Pui Yiu, aged 45

Executive Director

Mr. Wong joined the Group in February 2008. He has over 7 years of experience in business administration and corporate management. He is currently a general manager of Smart Honest Group Limited which is a distributor of semiconductors since 2004.

Mr. Wan Tze Fan Terence, aged 43

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.

Mr. Liu Weichang, aged 49

Independent Non-executive Director

Mr. Liu joined the Group in May 2005. Mr. Liu held a degree from Shenzhen University. He has over 24 years experience in the field of corporate management. Mr. Liu is the director and standing deputy general manager of two subsidiaries of a listed company in Hong Kong.

Mr. Gao Sheng Yu, aged 71
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).

Mr. Chung Chin Keung, aged 40
Independent Non-executive Director
Mr. Chung joined the Group in February 2008. Mr. Chung holds a bachelor degree of Business Administration from the Hong Kong Baptist University and a master degree in Business Administration from Manchester Business School. Mr. Chung is a fellow member of The Association of Chartered Certified Accountants, a fellow member of The Hong Kong Institute of Certified Public Accountants, a fellow member of The Institute of Financial Consultants and an associate member of The Institute of Chartered Accountants in England and Wales. He has more than 15 years of experience in finance, accounting and management. Mr. Chung is currently the financial controller and company secretary of K.P.I. Company Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited. He is also currently an independent non-executive director of Soyo Group, Inc., a company listed on NASDAQ OTC, USA since 7 October 2005.

SENIOR MANAGEMENT

Mr. Chan Wai, aged 38
Financial Controller and Company Secretary
Mr. Chan joined the Group in April 2004. Mr. Chan holds a master degree in Professional Accounting awarded from Hong Kong Polytechnic University. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Chan has over 15 years of experience in accounting field. Mr. Chan has worked for an international accounting firm and listed company in Hong Kong.

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

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

There were 30 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 (resigned on 26 November 2007)	19/30
Ms. Ma Zheng, Chairman	29/30
Mr. Chiu Winerthan	29/30
Mr. Wong Pui Yiu (appointed on 1 February 2008)	0/30
Independent Non-Executive Directors	
Mr. Wan Tze Fan Terence	8/30
Mr. Liu Weichang	6/30
Mr. Gao Sheng Yu	6/30
Mr. Chung Chin Keung (appointed on 1 February 2008)	0/30

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 circulated and approved by all Directors who have attended 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 the 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 2007, 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. Ms. Ma Zheng, the Chairman, is also the director of the Company's 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 to ensure the accountability and independence of Ms. Ma Zheng.

(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 next following general meeting of the Company after their appointment.

(F) Independent non-executive directors

As at the approval date of this financial statements, the Company has four independent non-executive Directors, they are Mr. Wan Tze Fan Terence ("Mr. Wan"), Mr. Liu Weichang ("Mr. Liu"), Mr. Gao Sheng Yu ("Mr. Gao") and Mr. Chung Chin Keung ("Mr. Chung"). Except for Mr. Gao and Mr. Chung who were 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, this constitutes a deviation of Code Provision B.1.4, however, once the website is constructed, we will comply with this code at once. These terms of reference were already reviewed by all Directors before they were adopted. The remuneration committee is now consisting only of the independent non-executive Directors, which include Mr. Wan, Mr. Liu, Mr. Gao and Mr. Chung (appointed on 1 February 2008). Mr. Wan is the chairman of the remuneration committee. The remuneration committee had held three meetings during 2007 and was attended by Mr. Wan and Mr. Liu, Mr. Gao had attended two of these meetings. 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 policies 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 1 February 2008, Mr. Wong Pui Yiu and Mr. Chung Chin Keung was respectively appointed as an executive director and 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 not in compliance with the recommended best practices of 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. These terms of reference will be put on the Company's website once the site is ready for use, this constitutes a deviation of Code Provision B.1.4, however, once the website is constructed, we will comply with this code at once. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises four members, Mr. Wan, Mr. Liu, Mr. Gao and Mr. Chung (appointed on 1 February 2008). 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
Mr. Chung Chin Keung	0/4

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 auditor in 2008 at the forthcoming Annual General Meeting.

The Group's 2007 annual report, 2007 quarterly report and 2007 half-yearly report had been reviewed by the audit committee.

The statement of the external auditor of the Company about his reporting responsibilities on the financial statements is set out in the Independent auditor's report on pages 34 and 35.

Directors' Responsibilities in Respect of the Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2007.

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) Auditor's remuneration

The audit committee of the Company is responsible for considering the appointment of the external auditor 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$1,440,000 (2006: HK$430,000) was charged to the Group's income statement for the year ended 31 December 2007 for fees payable to the external auditors. The amount comprised non-audit service fee of HK$740,000.

(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, in the previous year, the Company 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. After presenting this report to the member of Audit Committee, they considered that the review for this year of 2007 should focus more on the area of compliance control and risk management function. Because of this, during the year under review, we have appointed another company specialized in the review of the internal control of the Hong Kong listed company to review our internal control system. They will report their findings and make recommendations relating to all the financial, operational and compliance controls and risk management controls to the Company, all these were addressed in their internal control report and will be presented by the Board to our Audit Committee for their reviews. However, the Board still 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 2007.

Principal activities

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

An analysis of the Group's performance for the year by business and geographical 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 2007 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 36 to 107.

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 27 to the financial statements.

Reserves

Details of the movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 29 to the financial statements, respectively.

Distributable reserves

As at 31 December 2007, the Company had reserves available for distribution amounted to approximately HK$45,167,000 as calculated in accordance with the Companies Law (2001 Revision) of the Cayman Islands (2006: HK$68,699,000).

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in note 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 108.

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	(resigned on 26 November 2007)
Ms. Ma Zheng	
Mr. Chiu Winerthan	
Mr. Wong Pui Yiu	(appointed on 1 February 2008)

Independent Non-Executive Directors

Mr. Wan Tze Fan Terence	
Mr. Liu Weichang	
Mr. Gao Sheng Yu	
Mr. Chung Chin Keung	(appointed on 1 February 2008)

In accordance with article 86(3) of the Company's Articles of Association, Mr. Wong Pui Yiu and Mr. Chung Chin Keung will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with articles 87(1) and 87(2) of the Company's Articles of Association, Mr. Liu Weichang, Mr. Chiu Winerthan and Mr. Gao Sheng Yu shall retire from office by rotation at the forthcoming annual general meeting. Mr. Liu Weichang and Mr. Chiu Winerthan, being eligible, will offer themselves for re-election at the forthcoming annual general meeting whilst Mr. Gao Sheng Yu will not offer himself for re-election due to his personal full-time engagement. All other remaining directors will continue in office.

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

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

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 11 and 12.

Directors' service contracts

Mr. Chiu Winerthan and Mr. Wong Pui Yiu, both executive directors, have entered into service contracts with the Company for a term of two years commenced on 1 April 2007 and 1 February 2008 respectively and are subject to termination by either party giving not less than three months' written notice. These two service contracts are exempt from the shareholders' approval requirement under Rule 17.90 of the 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 24(ii) 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 2007, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

The approximate percentage of interest set out below is based on 7,475,355,200 ordinary shares in issue as at 31 December 2007, not on the total number of issued shares upon full conversion of the (i) convertible bond issued in favour of Future Advance Holdings Limited ("Future Advance") (details of which have been set out in the circular dated 21 March 2006), (ii) warrants (there are in total 634,950,000 warrants outstanding and 634,950,000 ordinary shares will be issued if all these warrants are exercised), (iii) pursuant to the conditional subscription agreement dated 12 June 2007, the convertible bonds (the "Convertible Bonds") issued to Lehman Brothers and (iv) the preferred shares issued to Great Ocean Real Estate Limited ("GORE") (the "Preferred Shares"). Details of the Preferred Shares and Convertible Bonds are set out in the announcements dated 2 February 2007 and 13 June 2007 and the circular dated 5 September 2007 respectively.

Long position in the ordinary shares of HK$0.00125 each in the Company as at 31 December 2007:

	Number of ordinary shares held		
Name of director	**Type of interests**	**Number of ordinary shares**	**Approximate percentage of interests**
Ms. Ma Zheng	Beneficial	54,000,000	0.72%

Note: Ms. Ma Zheng is holding 12.5% of the equity interest of Future Advance and Future Advance beneficially owned 34.46% of the equity interest of the Company. In addition, Ms. Ma Zheng is an executive director of the Company and the sole director of Future Advance.

Save as disclosed above, as at 31 December 2007, none of the directors and chief executive of the Company had any other interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations, within the meaning of Part XV of the SFO required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Share option

On 17 March 2004, the Company forfeited all the outstanding share options granted from a Pre-IPO share option scheme (the "Pre-Scheme") adopted by the Company on 28 November 2001, and that all outstanding share options granted from the Pre-Scheme were cancelled and extinguished. For further details of these, please refer to the announcement dated 17 March 2004. As at 31 December 2007, there were no share options outstanding under the Pre-Scheme.

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

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

As at 31 December 2007, the number of shares in respect of which options had been granted under the Post-Scheme was zero (2006: 176 million), representing 0% (2006: 2.58%) of the shares of the Company in issue since all options granted were exercised during the year. The total number of shares in respect of which options may be granted under the Post-Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of approval of the Post-Scheme, without prior approval from the Company's shareholders. However, the total number of shares available for issue under the Post-Scheme is approximately 681,246,720 shares, representing approximately 9.11% of the issued share capital as at 31 December 2007. The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

The subscription price will be determined by the Board and will be the highest of (i) the quoted closing price of the Company's shares on the Commencement Date (as defined in the Post-Scheme), which must be a trading day, 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 granted by the Company pursuant to the Post-Scheme and the options as at 31 December 2007 were as follows:

Grantees	Date granted	Balance as at 1 January 2007 '000	Granted during the year	Exercised during the year '000	Lapsed during the year	Balance as at 31 December 2007	Period during which the options are exercisable	Exercise price per share
Mr. Yu Hongzhi	3 April 2006	3,800	–	(3,800)	–	–	3 April 2006 to 27 November 2011	HK$0.053
Ms. Ma Zheng	3 April 2006	2,700	–	(2,700)	–	–	3 April 2006 to 27 November 2011	HK$0.053
Mr. Chiu Winerthan	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
Ex-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, ex-director, 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, ex-director, was obtained from the Listing Committee of the Stock Exchange. In according with HKFRS 2 Share Based Payment, the financial impact of the options cost will be reflected in the account of the Company on the date when all of the conditions are satisfied.

4. 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.

5. All the share options granted on 3 April 2006 were fully exercised. There is no share options outstanding as at 31 December 2007.

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 option pricing model:

1. an expected volatility of 125%;

2. annual dividends of 12% of earnings; and

3. the estimated expected life of the options granted during 2006 is two years. The corresponding two-year Hong Kong Exchange Fund Notes interest rate at the date the options were granted was 2.95%.

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 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.

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 2007, the Company had been notified that the following substantial shareholders having the following interests and short positions, being 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, in the Company. These interests are shown in addition to those disclosed above in respect of the directors and chief executives:

The approximate percentage of interest set out below is based on 7,475,355,200 ordinary shares in issue as at 31 December 2007, not on the total number of issued shares upon full conversion of the (i) convertible bond issued in favour of Future Advance, (ii) warrants (there are in total 634,950,000 warrants outstanding and 634,950,000 ordinary shares will be issued if all these warrants are exercised), (iii) pursuant to the conditional subscription agreement dated 12 June 2007, the Convertible Bonds issued to Lehman Brothers and (iv) the Preferred Shares issued to GORE.

(i) Long position in the ordinary shares of HK$0.00125 each in the Company as at 31 December 2007:

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	34.46%
China Zong Heng Holdings Limited	Corporate (Note 1)	2,576,194,460	34.46%
APAC Resources Limited	Beneficial	862,912,520	11.54%
Super Grand Investments Limited ("Super Grand")	Corporate (Note 2)	862,912,520	11.54%

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

2. These shares are held by Super Grand and Super Grand is the wholly-owned subsidiary of APAC Resources Limited.

(ii) Long position in the underlying shares or debentures of the Company as at 31 December 2007:

Name	**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	4.19%
China Zong Heng Holdings Limited	Corporate	Convertible bond (Note 1)	313,503,280	4.19%
Lehman Brothers Holdings Inc.	Beneficial	Convertible Bonds (Notes 2 & 4)	1,247,338,197	16.69%
Great Ocean Real Estate Limited	Beneficial	Preferred Shares (Notes 3 & 4)	2,802,235,294	37.49%
Mr. Zhang Zheng (張征先生)	Corporate	Preferred Shares (Notes 3 & 4)	2,802,235,294	37.49%

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$6,270,065.60 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 2007.

2. The underlying shares are held by Lehman Brothers, the ultimate beneficial owner of which is Lehman Brothers Holdings Inc.. The total number of shares to which Lehman Brothers are entitled under the Convertible Bonds has taken into account the existing issued share capital of the Company and all outstanding securities which may be convertible into or carry rights to subscribe for new shares. Based on the existing issued share capital and assuming full conversion of the convertible bonds held by Future Advance (see section (i) note 1 above) and exercise in full of all other securities carrying rights to subscribe for new shares including warrants and share options and other convertible securities convertible into new shares of the Company outstanding as at 31 December 2007, the maximum number of new shares to be issued upon full conversion of the Convertible Bonds is 1,247,338,197 shares, representing 10% of the issued share capital of the Company as enlarged by the full conversion of the aforesaid convertible securities. Details of which are set out in the circular dated 5 September 2007.

3. These underlying shares are held by GORE, a company incorporated in the British Virgin Islands with limited liability, and Mr. Zhang Zheng (張征), is the sole beneficial owner of GORE. The Preferred Shares issued is carry conversion right convertible into ordinary shares of HK$0.00125 each of the Company at the initial conversion rate of 1:1, subject to adjustments.

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

Save as disclosed above, as at 31 December 2007, 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 96%.

Purchases from the Group's largest supplier accounted for approximately 84% 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 2007.

Code on corporate governance practices

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

Audit committee

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises four members, Mr. Wan Tze Fan Terence, Mr. Liu Weichang, Mr. Gao Sheng Yu and Mr. Chung Chin Keung who are the independent non-executive directors of the Company. During the year, the audit committee of the Company ("the Audit Committee") held four meetings and performed duties including reviewing the Group's annual report, half-yearly report, quarterly report and announcements. After reviewing the Group's financial statements for the year ended 31 December 2007, the Audit Committee is of the opinion that the financial statements of the Company and the Group for the year ended 31 December 2007 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 four members, Mr. Wan Tze Fan Terence, Mr. Liu Weichang, Mr. Gao Sheng Yu and Mr. Chung Chin Keung who are the independent non-executive directors of the Company.

Connected and related party transactions

Details of the connected transactions during the year are included in note 33 to the financial statements, which included all the details required to be disclosed pursuant to the Rule 20.45 of the GEM Listing Rules.

Competition and conflict of interests

Mr. Yu Hongzhi, the director of the Company's subsidiary of Yichang Fulianjiang Joint Composite Limited (宜昌富連江複合材料有限公司), is the director and legal representative of 宜昌弘訊管業有限公司 ("Yichang HongXun Conduit and Calling Company Limited")#, which is 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 2007, 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 2007.

Contingent liabilities

As at 31 December 2007, the directors of the Company were not aware of any material contingent liabilities.

Significant non-adjusting post balance sheet event

Details of the significant non-adjusting post balance sheet event are disclosed in the note 37 of this financial statements.

Auditor

Messrs. Grant Thornton tendered their resignation as auditor of the Company with effect from 20 December 2007 and Shu Lun Pan Horwath Hong Kong CPA Limited was appointed as auditor of the Company to fill the casual vacancy created by the resignation of Messrs. Grant Thornton by the shareholders of the Company at the extraordinary general meeting of the Company held on 11 January 2008. A resolution for the re-appointment of Shu Lun Pan Horwath Hong Kong CPA Limited as auditor of the Company, will be put at the forthcoming annual general meeting of the Company.

The financial statements of the Company for the year ended 31 December 2006 were audited by Messrs. Grant Thornton. There has been no other change of auditor of the Company in the past three years.

On behalf of the board

Ma Zheng
Chairman

Hong Kong, 25 March 2008

Independent Auditor's Report

Horwath

Shu Lun Pan Horwath Hong Kong CPA Limited
香港立信浩華會計師事務所有限公司
2001 Central Plaza
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Wanchai, Hong Kong
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TO THE SHAREHOLDERS OF CHINA PRIMARY RESOURCES HOLDINGS LIMITED
（中國基礎資源控股有限公司）
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Primary Resources Holdings Limited set out on pages 36 to 107, which comprise the consolidated and company balance sheets as at 31 December 2007, the consolidated income statement, consolidated statement of changes in equity and 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 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.

Auditor's 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 auditor's judgment, 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 auditor considers 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 2007 and of the profit and cash flows of the Group 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.

SHU LUN PAN HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

Shiu Hong Ng
Practising Certificate number P03752

25 March 2008

2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2007
(Expressed in Hong Kong dollars)

	Notes	2007 HK$'000	2006 HK$'000
Continuing operations:			
Turnover	5	**31,826**	34,731
Other revenue and gain	7	**1,601**	1,077
Cost of inventories		**(31,261)**	(26,060)
Staff costs, including directors' remuneration	14	**(6,393)**	(4,109)
Depreciation		**(1,555)**	(1,082)
Amortisation on land use rights	17	**(653)**	(602)
Other operating expenses		**(9,685)**	(9,530)
Provision for impairment loss on property, plant and equipment	16	**(3,097)**	–
Provision for impairment loss on prepayments		**(273)**	–
Share of profits less losses of associates	18	**1,139,370**	–
Operating profit/(loss)		**1,119,880**	(5,575)
Finance costs	8	**(4,494)**	(301)
Profit/(loss) before income tax	9	**1,115,386**	(5,876)
Income tax credit/(charge)	10(a)	**272**	(135)
Profit/(loss) after tax from continuing operations		**1,115,658**	(6,011)
Discontinued operations:			
Profit for the year from discontinued operations	11	**–**	18
Profit/(loss) for the year		**1,115,658**	(5,993)
Attributable to:			
Equity holders of the Company	12	**1,115,983**	(5,938)
Minority interests		**(325)**	(55)
Profit/(loss) for the year		**1,115,658**	(5,993)
Dividend		**–**	–

The accompanying notes form part of these financial statements.

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2007
(Expressed in Hong Kong dollars)

	Notes	2007	2006
Earnings/(loss) per share of profit/(loss) from continuing and discontinued operations attributable to the equity holders of the Company during the year	13		
Basic		**HK$0.160**	(HK$0.001)
Diluted		**HK$0.097**	N/A
Earnings/(loss) per share of profit/(loss) from continuing operations attributable to the equity holders of the Company during the year	13		
Basic		**HK$0.160**	(HK$0.001)
Diluted		**HK$0.097**	N/A

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet

AT 31 DECEMBER 2007
(Expressed in Hong Kong dollars)

	Note	**2007 HK$'000**	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	**28,226**	30,314
Land use rights	17	**30,272**	28,500
Interests in associates	18	**2,133,361**	–
Deposits paid	18, 37	**15,961**	18,627
		2,207,820	77,441
Current assets			
Inventories	20	**438**	2,539
Trade receivables	21	**–**	1,394
Other receivables, deposits and prepayments		**13,634**	6,045
Current tax refundable	10(c)	**42**	39
Cash and cash equivalents	22	**294,063**	88,204
		308,177	98,221
Current liabilities			
Trade payables	23	**68**	467
Other payables and accruals		**2,038**	2,095
		2,106	2,562
Net current assets		**306,071**	95,659
Total assets less current liabilities carried forward		**2,513,891**	173,100

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet

AT 31 DECEMBER 2007
(Expressed in Hong Kong dollars)

	Note	2007 HK$'000	2006 HK$'000
Total assets less current liabilities brought forward		**2,513,891**	173,100
Non-current liabilities			
Convertible bonds	24	**226,107**	5,469
Deferred tax liabilities	25	**152,211**	19
Convertible preferred shares	26	**50,992**	–
		429,310	5,488
Net assets		**2,084,581**	167,612
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	27	**9,344**	8,519
Reserves		**2,071,534**	154,442
		2,080,878	162,961
Minority interests		**3,703**	4,651
Total equity		**2,084,581**	167,612

These financial statements were approved and authorised for issue by the board of directors on 25 March 2008.

Ma Zheng
Director

Chiu Winerthan
Director

The accompanying notes form part of these financial statements.

Balance Sheet

AT 31 DECEMBER 2007
(Expressed in Hong Kong dollars)

	Note	**2007 HK$'000**	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	19	**311,852**	312,390
Current assets			
Other receivables, deposits and prepayments		**165**	204
Amounts due from subsidiaries	19	**964,835**	–
Cash and cash equivalents	22	**202,135**	35,489
		1,167,135	35,693
Current liabilities			
Other payables and accruals		**1,001**	438
Amounts due to subsidiaries	19	**213,941**	254,140
		214,942	254,578
Net current assets/(liabilities)		**952,193**	(218,885)
Total assets less current liabilities carried forward		**1,264,045**	93,505

The accompanying notes form part of these financial statements.

Balance Sheet

AT 31 DECEMBER 2007
(Expressed in Hong Kong dollars)

	Note	**2007 HK$'000**	2006 HK$'000
Total assets less current liabilities brought forward		**1,264,045**	93,505
Non-current liabilities			
Convertible bonds	24	**226,107**	5,469
Deferred tax liabilities	25	**152,192**	–
Convertible preferred shares	26	**50,992**	–
		429,291	5,469
Net assets		**834,754**	88,036
EQUITY			
Share capital	27	**9,344**	8,519
Reserves	29	**825,410**	79,517
Total equity		**834,754**	88,036

These financial statements were approved and authorised for issue by the board of directors on 25 March 2008.

Ma Zheng
Director

Chiu Winerthan
Director

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2007
(Expressed in Hong Kong dollars)

	Equity attributable to equity holders of the Company											
	Share capital HK$'000	**Share premium account** HK$'000	**Convertible bonds reserve** HK$'000	**Employee compensation reserve** HK$'000	**Statutory surplus reserve** HK$'000	**Statutory public welfare reserve** HK$'000	**Convertible preferred share reserve** HK$'000	**Retained profits/ (accumulated losses)** HK$'000	**Warrants reserve** HK$'000	**Exchange translation reserve** HK$'000	**Minority interests** HK$'000	**Total equity** HK$'000
Balance at 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 expenses for the year	–	–	–	–	834	–	–	(6,291)	–	1,032	(55)	(4,480)
Capital contributed by minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	4,706	4,706
Issue of new shares	2,602	97,456	–	–	–	–	–	–	–	–	–	100,058
Share issue expenses	–	(124)	–	–	–	–	–	–	–	–	–	(124)
Issue of convertible bonds	–	–	1,063	–	–	–	–	–	–	–	–	1,063
Employee share-based compensation	–	–	–	1,531	–	–	–	–	–	–	–	1,531
Issue of warrants	–	–	–	–	–	–	–	–	7,785	–	–	7,785
Exercise of warrants	3	772	–	–	–	–	–	–	(34)	–	–	741
Balance at 31 December 2006 and 1 January 2007	8,519	167,601	1,063	1,531	5,110	–	–	(31,007)	8,224	1,920	4,651	167,612
Currency translation (Net income recognised directly in equity)	–	–	–	–	–	–	–	–	–	11,034	396	11,430
Profit for the year	–	–	–	–	–	–	–	1,115,983	–	–	(325)	1,115,658
Total recognised income and expenses for the year	–	–	–	–	–	–	–	1,115,983	–	11,034	71	1,127,088
Acquisition of additional equity interest of a subsidiary	–	–	–	–	–	–	–	–	–	–	(1,019)	(1,019)
Issue of shares on exercise of share options	220	10,639	–	(1,531)	–	–	–	–	–	–	–	9,328
Issue of shares on exercise of warrants	605	10,011	–	–	–	–	–	–	(605)	–	–	10,011
Issue of convertible bonds and convertible preferred shares	–	–	22,163	–	–	–	902,562	–	–	–	–	924,725
Issue expenses for convertible bonds	–	–	(700)	–	–	–	–	–	–	–	–	(700)
Deferred tax arising from equity components of convertible bonds and convertible preferred shares	–	–	(3,541)	–	–	–	(148,923)	–	–	–	–	(152,464)
Balance at 31 December 2007	9,344	188,251	18,985	–	5,110	–	753,639	1,084,976	7,619	12,954	3,703	2,084,581

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2007
(Expressed in Hong Kong dollars)

Notes:

(a) The share premium account of group includes: (i) the premium arising from the issue of shares of the Company at a premium less share issue expenses; and (ii) the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to the reorganisation scheme (the "Group Reorganisation") in preparation for the public listing of the Company's shares on the 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 People's Republic of China (the "PRC") are required to transfer 10% of their profit after tax calculated in accordance with the PRC accounting regulations to the statutory surplus reserve until the reserve reaches 50% of their respective registered capital, upon which any further appropriation will be at the recommendation of the directors of subsidiaries. Such reserve may be used to reduce any 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 the 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, the PRC subsidiaries of the Company are not allowed to establish the statutory public welfare reserve. Therefore, the balance of statutory public welfare reserve of the Group was fully transferred to statutory surplus reserve during the prior year.

(d) 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 entities the holder thereof to subscribe for one new share at an initial exercise price of HK$0.265 per new share, payable in cash and subject to adjustment. Consideration of HK$4,005,000 was received.

On 18 September 2006, the Company issued 315,000,000 non-listed warrants at the issue price of HK$0.012 per warrant to Northern Power Group Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly-owned by 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 entities 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 prior year.

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

During the current year, 34,654,400 (2006: 2,800,000) warrants have been exercised.

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2007
(Expressed in Hong Kong dollars)

	2007 HK$'000	2006 HK$'000
Operating activities		
Profit/(loss) before income tax, including profit from discontinued operations	**1,115,386**	(5,858)
Adjustments for:		
Depreciation	**2,707**	1,987
Amortisation on land use rights	**653**	602
Employee share-based compensation	**–**	1,531
Bank interest income	**(1,529)**	(973)
Gain on disposal of property, plant and equipment	**(57)**	–
Interest on convertible bonds	**3,700**	262
Imputed interest on convertible preferred shares	**794**	–
Provision for impairment loss on property, plant and equipment	**3,097**	–
Provision for impairment loss on prepayments	**273**	–
Share of profits less losses of associates	**(1,139,370)**	–
Operating loss before working capital changes	**(14,346)**	(2,449)
Decrease in inventories	**2,101**	777
Decrease/(Increase) in trade receivables	**1,394**	(1,277)
Increase in other receivables, deposits and prepayments	**(7,811)**	(23,663)
(Decrease)/Increase in trade payables	**(399)**	465
Decrease in accruals and other payables	**(57)**	(719)
Effect of foreign exchange difference	**2,059**	–
Cash used in operations	**(17,059)**	(26,866)
Interest income received	**1,529**	973
Overseas income taxes paid	**–**	(165)
Net cash used in operating activities	**(15,530)**	(26,058)

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2007
(Expressed in Hong Kong dollars)

	2007 HK$'000	2006 HK$'000
Investing activities		
Deposits paid	**(15,961)**	–
Purchases of property, plant and equipment	**(2,312)**	(5,769)
Payment to acquire interests in associates	**(22,604)**	–
Payment to acquire additional equity interest in a subsidiary	**(1,019)**	–
Proceeds from disposal of property, plant and equipment	**1,206**	171
Net cash used in investing activities	**(40,690)**	(5,598)
Financing activities		
Issue of convertible bonds	**246,250**	–
Payment of issue cost for convertible bonds	**(7,787)**	–
Convertible bond interest paid	**(62)**	–
Proceeds from exercise of share options	**9,328**	–
Proceeds from exercise of warrants	**10,011**	741
Proceeds from issue of shares	**–**	100,058
Share issue expenses	**–**	(124)
Proceeds from issue of warrants	**–**	7,785
Increase in loans from a shareholder	**–**	372
Capital contributed by a minority shareholder of subsidiary	**–**	4,706
Net cash generated from financing activities	**257,740**	113,538
Net increase in cash and cash equivalents	**201,520**	81,882
Cash and cash equivalents at beginning of year	**88,204**	5,890
Effect of foreign exchange rate changes	**4,339**	432
Cash and cash equivalents at end of year	**294,063**	88,204
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	**294,063**	88,204

1. Organisation and operations

The Company is a limited liability company incorporated in the Cayman Islands, as an exempted company under the Companies Law (2001 Revision) of the Cayman Islands on 5 September 2001. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is in Hong Kong. The Company's shares are listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The Group engages in (i) manufacture and sale of Polyethylene ("PE")/Fibre Glass Reinforced Plastic ("FRP") pipes; and (ii) mining businesses and property development through its interests in associates, and operates primarily in the markets of the People's Republic of China ("PRC"). The activities of the subsidiaries are set out in note 19 to the financial statements.

2. Adoption of new and revised Standards

In the current year, the Group has adopted all of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies.

The impact of the adoption of HKFRS 7 "Financial Instruments: Disclosures" and HKAS 1 Amendment "Capital Disclosures" has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

(Expressed in Hong Kong dollars)

2. Adoption of new and revised Standards (continued)

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

		Effective for annual periods beginning on or after
HKAS 1 (Revised)	Presentation of financial statements	1 January 2009
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HKFRS 8	Operating Segments	1 January 2009
HK(IFRIC) – Int 11	HKFRS 2 – Group and treasury share transactions	1 March 2007
HK(IFRIC) – Int 12	Service Concession Arrangements	1 January 2008
HK(IFRIC) – Int 13	Customer loyalty programmes	1 July 2008
HK(IFRIC) – Int 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008

The Group is in the process of making an assessment of what the impact of these new or revised standards or interpretations is expected to be in the period of their initial application.

3. Principal accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

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

3. *Principal accounting policies (continued)*

(b) Basis of preparation of financial statements

The consolidated financial statements have been prepared under the historical cost convention.

(c) Basis of consolidation

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

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

All significant intercompany transactions, balances and unrealised gains on transactions between group enterprises are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment on the asset transferred.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Minority interest in the net assets of consolidated subsidiaries is identified separately from the Group's equity therein. Minority interest consists of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. Principal accounting policies (continued)

(d) Business combinations

Acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(e) Subsidiaries

Subsidiaries are entities in which the Group has the power to govern the financial and operating policies, so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Interests in subsidiaries are included in the Company's balance sheet at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3. Principal accounting policies (continued)

(f) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

The results and assets and liabilities of associate are incorporated in these financial statements using the equity method of accounting. Under the equity method, interests in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the assets transferred, in which case they are recognised immediately in profit or loss.

3. Principal accounting policies (continued)

(g) 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: (i) represents a separate major line of business or geographical area of operations; (ii) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (iii) is a subsidiary acquired exclusively with a view to resale.

(h) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates are as follows:

Buildings	Over the lease terms
Leasehold improvements	Over the remaining term of the lease but not exceeding 4 years
Computer equipment	20%
Plant and machinery	10%
Furniture, equipment and office equipment	20%
Motor vehicles	20%

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. Principal accounting policies (continued)

(i) Impairment of assets excluding goodwill

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. Principal accounting policies (continued)

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, including an appropriate portion of overhead expenses, is assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sale.

(k) Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, are initially measured at fair value, plus transaction costs. The Group's financial assets comprised loans and receivables, which are subsequently accounted for as follows:

(i) Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(ii) Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

3. Principal accounting policies (continued)

(k) Financial assets (continued)

(ii) Impairment of financial assets (continued)

For loans and receivables of the Group, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

For trade and other current receivables, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which has been determined had no impairment loss been recognised in prior years.

3. Principal accounting policies (continued)

(k) Financial assets (continued)

(ii) Impairment of financial assets (continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included in trade and other receivable, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(iii) Effective interest method

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

Income is recognised on an effective interest basis for debt instruments.

(iv) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3. Principal accounting policies (continued)

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

(i) Classification as debt or equity

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

(ii) Equity instruments

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

(iii) Compound instruments

The component parts of compound instruments, comprising convertible bonds and convertible preferred shares issued by the Group, are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Issue costs were apportioned between the liability and equity components of the compound instruments based on their relative carrying amounts at the date of issue. The portion relating to the equity component was charged directly to equity.

(iv) Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

3. Principal accounting policies (continued)

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

(v) Other financial liabilities

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

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

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

(vi) Derecognition of financial liabilities

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

(m) Cash and cash equivalents

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

3. Principal accounting policies (continued)

(n) Operating leases

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

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

Land use rights under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

(o) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. Principal accounting policies (continued)

(p) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. Principal accounting policies (continued)

(p) Taxation (continued)

(ii) Deferred tax (continued)

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(q) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("functional currency"). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Hong Kong dollar which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

3. Principal accounting policies (continued)

(q) Foreign currencies (continued)

Items included in the financial statements of the Company are measured using the Hong Kong dollar, the functional currency of the Company. The financial statements are presented in Hong Kong dollar.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

– exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;

– exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

– exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the exchange translation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Hong Kong dollar using exchange rates prevailing at the balance sheet date. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

3. Principal accounting policies (continued)

(r) Employees' benefits

i) Short term benefits

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

ii) Pension obligations

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

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentages of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

(s) Share-based payments

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

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

3. Principal accounting policies (continued)

(s) Share-based payments (continued)

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

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

(t) Borrowing costs

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

(u) Related parties

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

3. Principal accounting policies (continued)

(v) Revenue recognition

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

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

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

iii) Revenue for providing Massive Multiplayer Online Game ("MMOG") is recognised to the extent of services rendered and according to the terms of the agreement.

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

(a) Depreciation and impairment of property, plant and equipment

The Group depreciated the property, plant and equipment on a straight-line basis over the estimated useful lives, 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. Critical accounting judgements and key sources of estimation uncertainty (continued)

(b) Impairment of receivables

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

(c) Net realisable value of inventories

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

(d) Recognition of cost of interests in associates upon acquisition and excess of the Group's share of the net fair value of the interests in associates over the cost of the acquisition

The fair value of the Group's interests in associates upon the acquisition and hence the excess of the Group's share of the net fair value of the interests in associates over the cost of the acquisition are determined using discounted cash flow method with reference to a technical assessment report on the mining sites of the associates and business valuation reports of the associates issued by independent professionally qualified valuers, which adopted assumptions regarding the operations of the associates. Further details are set out in note 18 to the financial statements and the circular of the Company dated 5 September 2007.

5. Turnover

Turnover represents the sales value of goods supplied/services provided to customers and is analysed as follows:

	2007 HK$'000	2006 HK$'000
Continuing operations:		
Sale of composite materials	**24,713**	14,920
Sale of PE/FRP pipes	**7,113**	19,811
Sale of goods	**31,826**	34,731
Discontinuing operations (note 11):		
MMOG service income	**–**	75
Provision of services	**–**	75
Total	**31,826**	34,806

6. Segment Information

(a) Primary Reporting Format – Business segments

Segment information is presented by way of a two segment format: (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:

– Manufacture and sale of PE/FRP pipes

– Sale of raw materials and composite materials (collectively as the "Composite Materials")

– Mine resources development and asset management (conducted through associates of the Group)

– 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 or transfer during the year (2006: Nil).

6. Segment Information (continued)

(a) Primary reporting format – Business segments (continued)

	Continuing operations								Discontinued operations			
	Sale of Composite Materials		Manufacture and sale of PE/FRP pipes		Mine Resources Development and Assets Management		Total continuing operations		MMOG services		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	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	**24,713**	14,920	**7,113**	19,811	**-**	–	**31,826**	34,731	**-**	75	**31,826**	34,806
Cost of services provided	**-**	–	**-**	–	**-**	–	**-**	–	**-**	(57)	**-**	(57)
Cost of inventories	**(23,450)**	(9,081)	**(7,811)**	(16,979)	**-**	–	**(31,261)**	(26,060)	**-**	–	**(31,261)**	(26,060)
Other operating expenses	**(5,812)**	(2,838)	**(1,673)**	(3,769)	**-**	–	**(7,485)**	(6,607)	**-**	–	**(7,485)**	(6,607)
Segment results	**(4,549)**	3,001	**(2,371)**	(937)	**-**	–	**(6,920)**	2,064	**-**	18	**(6,920)**	2,082
Other revenue and gain											**1,601**	1,077
Finance costs											**(4,494)**	(301)
Unallocated expenses											**(14,171)**	(8,716)
Share of profits less losses of associates											**1,139,370**	–
Profit/(loss) before income tax											**1,115,386**	(5,858)
Income tax											**272**	(135)
Profit/(loss) for the year											**1,115,658**	(5,993)
Assets												
Segment assets			**91,689**	66,952			**91,689**	66,952			**91,689**	66,952
Unallocated assets											**2,424,308**	108,710
Total assets											**2,515,997**	175,662
Liabilities												
Segment liabilities			**(1,015)**	(467)			**(1,015)**	(467)			**(1,015)**	(467)
Unallocated liabilities											**(430,401)**	(7,583)
Total liabilities											**(431,416)**	(8,050)
Other information												
Capital expenditure			**625**	3,626			**625**	3,626			**625**	3,626
Unallocated capital expenditure											**1,687**	2,143
Total capital expenditure											**2,312**	5,769
Depreciation and impairment loss for the year			**5,202**	1,506			**5,202**	1,506			**5,202**	1,506
Unallocated depreciation											**602**	481
Total depreciation and impairment loss											**5,804**	1,987
Amortisation on land use rights			**653**	602			**653**	602			**653**	602

6. Segment Information (continued)

(b) Secondary reporting format – Geographical segments

	Continuing operations The PRC		Discontinued operations Hong Kong		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Revenue from external customers	**31,826**	34,731	**–**	75	**31,826**	34,806
Other segment information:						
Segment assets	**2,515,997**	175,662	**–**	–	**2,515,997**	175,662
Capital expenditure	**2,312**	5,769	**–**	–	**2,312**	5,769

7. Other revenue and gain

	2007	2006
	HK$'000	HK$'000
Continuing operations:		
Bank interest income	**1,529**	973
Gain on disposal of property, plant and equipment	**57**	–
Sundry income	**15**	104
	1,601	1,077

8. Finance costs

	2007 HK$'000	2006 HK$'000
Continuing operations:		
Interest expenses on:		
Loans from a shareholder wholly repayable within five years	–	39
Convertible bonds wholly repayable within five years	3,700	262
Imputed interest on convertible preferred shares (note 26)	794	–
	4,494	301

9. Profit/(loss) before income tax

	2007 HK$'000	2006 HK$'000
Profit/(loss) before income tax is arrived at after charging/(crediting) attributable to continuing operations:		
Auditor's remuneration	700	443
Operating lease charges – Land and buildings	743	554
Net foreign exchange losses	1	–
Depreciation (Note)	2,707	1,987
Gain on disposal of property, plant and equipment	(57)	–

Note: Depreciation charge of approximately HK$1,152,000 (2006: HK$905,000) has been included in cost of goods sold.

10. Income tax

(a) Taxation in the consolidated income statement represents the following items from the continuing operations:

	2007 HK$'000	2006 HK$'000
Current tax – Overseas		
– Under provision in respect of prior years	–	135
	–	135
Deferred taxation (note 25)		
– attributable to the origination and reversal of temporary differences	(272)	–
	(272)	135

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

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

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress promulgated the Corporate Income Tax Law of the PRC ("the New Tax Law"), which became effective on 1 January 2008. Further, on 6 December 2007, the State Council released the Implementation Rules to the Corporate Income Tax Law.

According to the New Tax Law, from 1 January 2008, the standard corporate income tax rates for enterprises in the PRC will be reduced from 33% to 25%.

10. Income tax (continued)

(b) The taxation (credit)/charge for the year can be reconciled to accounting profit/(loss), including profit from discontinued operations before income tax, at applicable tax rates:

	2007 **HK$'000**	2006 HK$'000
Profit/(loss) before income tax, including profit from discontinued operations before income tax	**1,115,386**	(5,858)
Taxation calculated at the rates applicable to profits in the respective tax jurisdictions concerned	**374,355**	(782)
Tax effect of expenses not deductible for taxation purposes	**1,798**	1,135
Tax effect of non-taxable items	**(377,947)**	(876)
Tax effect on unused tax losses not recognised	**1,842**	523
Tax effect of income not taxable for tax purpose	**(320)**	–
Under-provision in respect of prior years	**–**	135
Income tax (credit)/charge for the year solely attributable to continuing operations	**(272)**	135

In addition to the income tax recognised in profit or loss, deferred tax relating to the issue of convertible bonds and convertible preferred shares has been charged directly to equity (note 25).

10. Income tax (continued)

(c) Current taxation in the balance sheet represents

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Balance of profits tax overprovision relating to prior years refundable	**42**	39	**–**	–

11. Discontinued operations

The Group had agreed to abandon and discontinue the business line of MMOG services during the prior year.

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

	Note	**2007**	2006
		HK$'000	HK$'000
Revenue	5	**–**	75
Expenses		**–**	(57)
Profit before income tax of discontinued operations		**–**	18
Income tax		**–**	–
Profit for the year from discontinued operations		**–**	18
Net operating cash flows		**–**	18
Net investing cash flows		**–**	–
Net financing cash flows		**–**	–
Total cash flows		**–**	18

12. Profit/(loss) for the year attributable to equity holders of the Company

The consolidated profit attributable to equity holders of the Company includes a loss of approximately HK$44,182,000 (2006: HK$45,165,000) (note 29) which has been dealt with in the financial statements of the Company.

13. Earnings/(loss) per share

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

The calculation of diluted earnings/(loss) per share is based on the profit/(loss) for the year attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible bonds, convertible preferred shares, share options and warrants. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	2007 HK$'000	2006 HK$'000
Earnings/(loss)		
For continuing and discontinued operations		
Profit/(loss) for the year attributable to the equity holders of the Company for calculation of basic earnings/(loss) per share	**1,115,983**	(5,938)
Interest on convertible bonds	**3,700**	262
Interest on convertible preferred shares	**794**	–
Income tax effect	**(272)**	–
Profit/(loss) for the year attributable to the equity holders of the Company for calculation of diluted earnings/(loss) per share	**1,120,205**	(5,676)

13. Earnings/(loss) per share (continued)

	2007 HK$'000	2006 HK$'000
Earnings/(loss)		
For continuing operations		
Profit/(loss) for the year attributable to the equity holders of the Company for calculation of basic earnings/(loss) per share	**1,115,983**	(5,956)
Interest on convertible bonds	**3,700**	262
Interest on convertible preferred shares	**794**	–
Income tax effect	**(272)**	–
Profit/(loss) for the year attributable to the equity holders of the Company for calculation of diluted earnings/(loss) per share	**1,120,205**	(5,694)

	2007 '000	2006 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic earnings/(loss) per share	**6,995,155**	6,231,001
Effect of dilution – weighted average number of ordinary shares:		
Warrants	**138,432**	–
Convertible bonds	**1,560,842**	–
Convertible preferred shares	**2,802,235**	–
Weighted average number of ordinary shares for the purposes of calculating diluted earning/(loss) per share	**11,496,664**	6,231,001

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

14. Staff costs, including directors' remuneration

	2007	2006
	HK$'000	HK$'000
Continuing operations:		
Wages and salaries	**6,346**	2,529
Share options granted to directors and employees	**–**	1,531
Pension costs – defined contribution plans	**47**	49
	6,393	4,109

15. Directors' remuneration and five highest paid individuals

(a) Executive directors and non-executive directors

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

15. Director's remuneration and five highest paid individuals (continued)

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

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

Resigned on 26 November 2007.

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

15. Director's remuneration and five highest paid individuals (continued)

(b) Five highest paid individuals

The five highest paid individuals during the year included three (2006: three) directors, details of whose remuneration are set out in note 15(a) above. Details of the remuneration of the remaining two (2006: two) non-director, highest paid individuals for the year are as follows:

	2007	2006
	HK$'000	HK$'000
Basic salaries, share options and other benefits	**888**	673
Discretionary bonuses	**1,186**	342
Retirement benefit scheme contributions	**23**	21
	2,097	1,036

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
Nil – HK$1,000,000	**3**	2
HK$1,000,001 – HK$1,500,000	**1**	–
HK$1,500,000 or above	**1**	–

16. Property, plant and equipment

Group

	Buildings	Leasehold Improve-ments	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 2006							
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	–	–	(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
Year ended 31 December 2007							
Opening net book amount	21,062	58	1,755	6,346	116	977	30,314
Additions	268	–	113	25	1	1,905	2,312
Reclassifications	(2,906)	–	(1,441)	2,912	(85)	1,520	–
Disposals	–	–	–	(1,149)	–	–	(1,149)
Impairment loss	(2,157)	–	–	(940)	–	–	(3,097)
Depreciation	(955)	(58)	(144)	(845)	(17)	(688)	(2,707)
Exchange difference	1,792	–	136	541	–	84	2,553
Closing net book amount	17,104	–	419	6,890	15	3,798	28,226
At 31 December 2007							
Cost	22,022	635	2,526	6,922	214	3,035	35,354
Reclassifications	(2,906)	–	(1,441)	2,912	(85)	1,520	–
Accumulated depreciation and impairment losses	(4,199)	(635)	(813)	(3,576)	(114)	(853)	(10,190)
Exchange difference	2,187	–	147	632	–	96	3,062
Net book amount	17,104	–	419	6,890	15	3,798	28,226

16. Property, plant and equipment (continued)

Impairment

During the year, the Group carried out a review of the recoverable amount of its factory premise and manufacturing plant and machinery, having regard to its ongoing programme of modernisation and the introduction of new product lines. These assets are used in the Group's manufacture and sale of PE/FRP pipes segments. The review led to the recognition of an impairment loss of HK$3,097,000, which has been recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 9% per annum. The impairment losses has been presented on the face of the consolidated income statement.

17. Land use rights

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

	2007 HK$'000	2006 HK$'000
Outside Hong Kong, held on medium term lease	**30,925**	29,102
Opening net carrying amount	**29,102**	29,133
Amortisation on land use rights	**(653)**	(602)
Exchange difference	**2,476**	571
Closing net carrying amount	**30,925**	29,102
Less: Current portion included in other receivables, deposits and prepayments	**(653)**	(602)
Non-current portion	**30,272**	28,500

18. Interests in associates

	The Group	
	2007	2006
	HK$'000	HK$'000
Share of net assets	**2,133,361**	–

Particulars of the Group's associates, all which are unlisted corporate entities, are as follows:

Name of company	Form of business structure	Place of incorporation and operation	Effective ownership interest and voting power indirectly held	Principal activity
Xin Shougang Zi Yuan Holdings Limited ("Xin Shougang")	Corporate	PRC	22.28%	Mining resources development and asset management
長陽新首鋼礦業有限公司*	Corporate	PRC	22.28%	Mining resources development and asset management

* Wholly-owned subsidiary of Xin Shougang.

18. Interests in associates (continued)

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

	2007 HK$'000
Total assets	9,821,567
Total liabilities	(246,338)
Net assets	9,575,229
Group's share of associates' net assets	2,133,361

	2007 HK$'000
Revenue for the year	1,112
Net loss – post acquisition	(78,646)
Group's share of associates' net loss for the year	(17,522)
Excess of the Group's share of the net fair value of the interests in associates over the cost of the acquisition	1,156,892
Group's share of profits less losses of associates	1,139,370

18. Interests in associates (continued)

On 26 October 2007, the Group, through Yichang Shoukong Industries Co. Ltd., its wholly-owned subsidiary, acquired from Great Ocean Real Estate Limited (the "Vendor") (i) 22.28% equity interest in Xin Shougang which owned 65%, 45% and 48% of the equity interest in 宜昌新首鋼房地產開發有限公司, 首鋼京秦礦業有限公司 and 宜昌新首鋼貴金屬礦業有限公司 respectively at the date of the acquisition (collectively referred to as the "Xin Shougang Group"); and (ii) a call option to acquire additional 12.72% equity interest in Xin Shougang (the "Call Option"), which are collectively referred as the Acquisition. Xin Shougang was engaged in mining business located in Yichang, the PRC and investment holdings. An aggregate consideration of HK$971 million for the Acquisition was satisfied upon the completion of the Acquisition in the following manner:

(a) a sum of approximately HK$18 million, which was satisfied in cash and was paid by the Group as a deposit as at 31 December 2006.

(b) a sum of HK$953 million, which was satisfied by the Company's allotment and issue of 2,802 million convertible preferred shares of the Company (the "CPS") (note 26) to the Vendor, upon the completion of the Acquisition.

During the year, 長陽新首鋼礦業有限公司 was newly established as a wholly-owned subsidiary of Xin Shougang during the year and subsequent to the Acquisition. The Xin Shougang Group's businesses have commenced during the year but not generated any revenue thereof.

The cost of the acquisition is measured as the aggregate of the fair values, at the date of the acquisition, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for acquired equity interest of the Xin Shougang Group, plus any costs directly attributable to the business combination.

As 宜昌新首鋼貴金屬礦業有限公司 was also a 52%-owned subsidiary of the Group prior to the Acquisition, the acquisition of the effective 10.7% equity interest of 宜昌新首鋼貴金屬礦業有限公司 in the Acquisition was accounted for as the Group's acquisition of additional equity interest in this subsidiary. The Group's interests in associates are attributable to the Group's share of interest in the Xin Shougang Group excluding 宜昌新首鋼貴金屬礦業有限公司. Out of the above acquisition cost of HK$971 million, the directors considered that HK$1 million and HK$970 million were attributable to the acquisitions of additional interest in the subsidiary and interests in associates, respectively.

18. Interests in associates (continued)

The fair values of the interests in associates acquired by the Group in the Acquisition are as follows:

(i) The net fair value of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associates (the Xin Shougang Group excluding the interest in 宜昌新首鋼貴金屬礦業有限公司) was determined by the directors at HK$2,151 million based on the adjustment of the fair value of mining rights granted by the local government to Xin Shougang (amounted to approximately RMB9,000 million, equivalent to approximately HK$9,574 million), from the net assets of the associates as at date of the completion of the Acquisition (amounted to approximately HK$79 million).

The fair value of the mining rights is estimated by the directors by reference to a valuation report dated 18 March 2008 prepared by Greater China Appraisal Limited, independent professionally qualified valuers. The fair value of the mining rights was determined by employing the discounted cash flow method.

(ii) The fair value of the Call Option on the date of issue is estimated at HK$Nil by the directors by reference to a valuation report dated 18 March 2008 prepared by Greater China Appraisal Limited. The Call Option is an option of the Company to acquire additional 12.72% equity interest in Xin Shougang at any time during the 2-year period from 26 October 2007 to 25 October 2009, and the consideration for acquisition of such additional equity interest in Xin Shougang shall be subject to further agreement between the Group and the Vendor upon exercise of the Call Option. The fair value of the Call Option was determined by employing the Binomial Option Pricing model.

Taking into account other direct costs attributable to the Acquisition of approximately HK$24 million, the consideration for the acquisition of interests in associates of HK$970 million and the Group's share of fair value of associates upon the completion of the Acquisition of HK$2,151 million as mentioned in (i) and (ii) above, an excess of the Group's interest in the identifiable assets, liabilities and contingent liabilities of the acquired associates over the aggregate cost of the Acquisition of HK$1,157 million is credited to the share of profits less losses of associates.

Further details of the Acquisition are set out in the circular of the Company dated 5 September 2007.

19. Investments in subsidiaries

	The Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares/investments, at cost	**319,181**	319,181
Less: impairment loss	**(7,329)**	(6,791)
	311,852	312,390
Amounts due from subsidiaries	**1,070,744**	71,509
Less : provision for impairment	**(105,909)**	(71,509)
	964,835	–
Amounts due to subsidiaries	**(213,941)**	(254,140)

Amounts due from/to subsidiaries are unsecured, interest free and repayable on demand.

An impairment provision of HK$113,238,000 was recognised as at 31 December 2007 because the related recoverable amounts of the investment costs and amounts due from subsidiaries with reference to the net assets value of the respective subsidiaries were estimated to be less than their carrying amounts. Accordingly, the carrying amounts of the related investment costs in subsidiaries and amounts due from them are reduced to their recoverable amounts.

(Expressed in Hong Kong dollars)

19. *Investments in subsidiaries (continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2007 are as follows:

Name of company	Country of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the company	Held by subsidiary	Principal activity
e-gameasia.com Ltd	British Virgin Islands ("BVI")	10,279,450 ordinary shares of HK$1 each	100%	100%	–	Investment holding
Billybala Software (BVI) Limited	BVI	1 ordinary share of US$0.01 each	100%	100%	–	Investment holding
宜昌富連江複合材料有限公司 (Note (i))	PRC	HK$59,380,000	100%	–	100%	Trading of merchandise and production of PE/FRP pipes
Shoukong Group Limited	BVI	20,000,000 ordinary shares of US$1 each	100%	100%	–	Investment holding
Sure Whole Investments Limited	BVI	20,000,000 ordinary shares of US$1 each	100%	100%	–	Inactive
Yichang Shoukong Industries Co., Ltd. (Note (i))	PRC	HK$100,000,000	100%	–	100%	Investment holding
宜昌新首鋼貴金屬礦業有限公司 (Note (ii))	PRC	RMB30,000,000	62.7%	–	62.7%	Inactive

Notes:

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

(ii) During the year, an additional 10.7% equity interest in this subsidiary was acquired by the Group in the Acquisition at a consideration of HK$1 million (note 18).

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.

20. Inventories

	The Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**358**	2,337
Finished goods	**80**	202
	438	2,539

21. Trade receivables

The ageing analysis of the gross trade receivables is as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Within 30 days	**–**	639
31-60 days	**–**	755
	–	1,394

The average credit period to the Group's trade receivables is 90 days.

Trade receivable as at 31 December 2006 that were neither individually nor collectively considered to be impaired were not past due.

22. Cash and cash equivalents

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$87,367,000 (2006: HK$51,016,000). The RMB is not freely convertible into other currencies, however, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

23. Trade payables

	The Group	
	2007	2006
	HK$'000	HK$'000
Within 30 days	**68**	–
31-60 days	**–**	453
61-90 days	**–**	14
	68	467

24. Convertible bonds

The Group and the Company issued convertible bonds during the years ended 31 December 2006 and 2007:

(i) The 4.5% convertible bonds were issued to Lehman Brothers Commercial Corporation Asia Limited ("Lehman Brothers") on 31 October 2007 with nominal value of HK$246,250,000 and maturity date on 31 October 2010. The bonds are convertible into ordinary shares of the Company at an initial conversion price of HK$0.2 per conversion share (subject to adjustments in accordance with the terms of the convertible bonds) at any time during the period commencing from the date of issue of convertible bonds. The convertible bonds can be converted into 1,247,338,197 ordinary shares of the Company. Coupon interest of 4.5% will be paid semi-annually in arrears until the settlement date.

Unless previously redeemed, repurchased and cancelled or converted, any outstanding convertible bonds shall be redeemed at the repayment premium, plus any accrued and unpaid interest, on the third anniversary of the issue date of the convertible bonds. The repayment premium shall mean the premium payable on repayment of the convertible bonds at maturity date which amounts to 131.5% of the outstanding principal amount of the convertible bonds at the maturity date then due and payable unless during 60% of the total trading days during the term of the convertible bonds, the closing price of the ordinary shares of the Company is above HK$0.2, or any part of the convertible bonds have been converted into conversion shares, in which case the repayment premium is 100% of any outstanding principal at the maturity date.

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

Interest rate on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 9.11% per annum.

24. Convertible bonds (continued)

(ii) The 1% convertible bonds were issued to Future Advance Holdings Limited ("Future Advance"), a substantial shareholder of the Company, on 27 April 2006 with nominal value of HK$6,270,000 and 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 the 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 ordinary shares of the Company.

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

Interest rate on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 7.474% per annum.

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

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

	2007	2006
	HK$'000	HK$'000
Nominal value of convertible bonds	**252,520**	6,270
Equity component	**(23,226)**	(1,063)
Direct transaction costs attributable to the liability component	**(7,087)**	–
Liability component on initial recognition	**222,207**	5,207
Accumulated interest expenses recognised	**3,962**	262
Accumulated interest paid	**(62)**	–
Liability component at 31 December	**226,107**	5,469

25. Deferred tax liabilities

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

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
At beginning of year	**(19)**	(19)	**–**	–
Credited to profit or loss (note 10)	**272**	–	**272**	
Charged to equity	**(152,464)**	–	**(152,464)**	–
At end of year	**(152,211)**	(19)	**(152,192)**	–

The Group's deferred tax liabilities represent temporary differences arising from the issues of convertible bonds and convertible preferred shares of HK$152,464,000 (2006 : HK$Nil) and accelerated depreciation allowances of HK$19,000 (2006 : HK$19,000).

The Group has tax losses arising in Hong Kong of approximately HK$52,145,000 (2006: HK$40,064,000) and the PRC of approximately HK$9,009,000 (2006: HK$1,829,000) 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 years.

26. Convertible preferred shares

Group and Company

On 26 October 2007, the authorised CPS capital of HK$5 million divided into 4,000,000,000 CPS of HK$0.00125 each was created by the reclassification of the authorised ordinary shares capital (note 27(ii)). As part of the consideration for the Acquisition as mentioned in note 18 to the financial statements, the Company allotted and issued 2,802,235,294 CPS at HK$0.34 per CPS. The CPS recognised in the balance sheet is calculated as follows:

	Number of CPS	**Equity component**	**Liability component**	**Total**
		HK$'000	HK$'000	HK$'000
Issue of CPS during the year	2,802,235,294	902,562	50,198	952,760
Imputed interest (note 8)	–	–	794	794
	2,802,235,294	902,562	50,992	953,554

The principal terms of the CPS are set out below:

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

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

(c) Holders of the CPS shall have the right to convert, at any time from the date of allotment of the CPS without payment of any additional consideration, the CPS into ordinary shares of HK$0.00125 each at the initial conversion rate of 1:1 (subject to adjustments from time to time pursuant to the terms of the CPS).

26. Convertible preferred shares (continued)

Group and company (continued)

(d) Upon the value of the cumulative dividends to be distributed by Xin Shougang to the Group (the "Dividends") reaches HK$485.5 million or the Group has disposed of its interest in Xin Shougang at the disposal consideration of more than HK$485.5 million in aggregate without incurring any losses on the disposal or the total of the cumulative Dividends and the disposal consideration is more than HK$485.5 million without incurring any losses on the disposal, the Company may at any time redeem in cash not more than half of the CPS issued at a price equal to their principal amount plus a premium of 10% per annum together with any accrued and unpaid dividends of CPS thereon.

(e) The CPS rank preference to any and other classes of ordinary shares of the Company (including dividend distribution, capital distribution, return of capital upon the liquidation, winding up or dissolution of the Company or otherwise).

27. Share capital

		Number of shares of HK$0.025 each		Number of shares of HK$0.00125 each		Share capital	
		2007	2006	**2007**	2006	**2007**	2006
	Note	**'000**	'000	**'000**	'000	**HK$'000**	HK$'000
Authorised:							
Ordinary shares at beginning of year		**–**	5,000,000	**100,000,000**	–	**125,000**	125,000
Share subdivision	(i)	**–**	(5,000,000)	**–**	100,000,000	**–**	–
Reclassification	(ii)	**–**	–	**(4,000,000)**	–	**(5,000)**	–
Ordinary shares at end of year		**–**	–	**96,000,000**	100,000,000	**120,000**	125,000

27. Share capital (continued)

		Number of shares of HK$0.025 each		Number of shares of HK$0.00125 each		Share capital	
		2007	2006	**2007**	2006	**2007**	2006
	Note	**'000**	'000	**'000**	'000	**HK$'000**	HK$'000
Issued and fully paid:							
Ordinary shares at beginning of year		**–**	236,544	**6,815,267**	–	**8,519**	5,914
Share subdivision	(i)	**–**	(340,623)	**–**	6,812,460	**–**	–
Issues of new shares	(iii)	**–**	104,079	**–**	–	**–**	2,602
Exercise of warrants	(iv)	**–**	–	**484,088**	2,807	**605**	3
Exercise of share options	(v)	**–**	–	**176,000**	–	**220**	–
Ordinary shares at end of year		**–**	–	**7,475,355**	6,815,267	**9,344**	8,519

Notes:

(i) 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 was 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.

(ii) Reclassification

Pursuant to an ordinary resolution passed on 2 October 2007, the authorised share capital of HK$125,000,000 was reclassified from 100,000,000,000 ordinary shares of HK$0.00125 each to (a) 96,000,000,000 ordinary shares of HK$0.00125 each and (b) 4,000,000,000 CPS of HK$0.00125 each (note 26). The ordinary shares shall have the same rights and restrictions attached thereto as are the ordinary shares immediately prior to the reclassification of the share capital of the Company.

(iii) Issues 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.

27. Share capital (continued)

Notes: (continued)

(iii) Issues of new shares (continued)

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. The reason for issue was entirely to apply the investment in mining business related projects.

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 an independent third party, who is not connected person of the Company. The main reason for issue of these shares was intended to apply for investment in mining related business projects.

(iv) Exercise of warrants

On 4 June 2007, 11,000,000 warrants were exercised to subscribe for 11,000,000 ordinary shares of the Company at a consideration of HK$2,915,000 of which HK$13,750 was credited to share capital and the balance of HK$2,901,250 was credited to the share premium account. An amount of HK$132,000 has been transferred from the warrants reserve to the share premium account.

On 2 October 2007, 23,654,400 warrants were exercised to subscribe for 473,088,000 ordinary shares of the Company at a consideration of HK$7,096,320 of which HK$591,360 was credited to share capital and the balance of HK$6,504,960 was credited to the share premium account. An amount of HK$473,088 has been transferred from the warrants reserve to the share premium account.

(v) Exercise of share options

From 7 August 2007 to 7 September 2007, all of the 8,800,000 share options granted by the Company as at 31 December 2006 were exercised to subscribe for 176,000,000 ordinary shares of the Company at an aggregate consideration of HK$9,328,000 of which HK$220,000 was credited to share capital and the balance of HK$9,108,000 was credited to the share premium account. An amount of HK$1,531,000 had been transferred from the warrants reserve to the share premium account.

28. Share options scheme

As at 31 December 2007, 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 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 2007, there were no share options outstanding under the Pre-Scheme.

(ii) On 28 November 2001, a further share options scheme (the "Post-Scheme") was approved pursuant to a written resolution of the Company. The purpose of the Post-Scheme is to enable the Group to grant options to selected persons as incentives or rewards for their contribution to the Group. The board of directors may, at their discretion, grant options to any full-time employee and any director of the Company or its subsidiaries, including executive, non-executive and independent non-executive directors, to subscribe for shares of the Company. The total number of shares which may be issued upon exercise of all outstanding options granted and yet-to-be exercised under the Post-Scheme and other schemes by the Company must not exceed 30% of the shares in issue from time to time. A non-refundable nominal consideration of HK$1 is payable by the grantee upon acceptance of an option. The subscription price for shares under the Post-Scheme may be determined by the board of directors at its absolute discretion but in any event will not be less than the higher of : (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day and (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date for grant of the relevant options.

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

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.

28. Share options scheme (continued)

(ii) (continued)

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

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

At 31 December 2007, all outstanding options were exercised and no option was issued during the year.

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

Grantees	**Date granted**	**Balance as at 1 January 2007** '000	**Exercised during the year** '000	**Lapsed during the year** '000	**Balance as at 31 December 2007** '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)	–	–		

In total, approximately HK$1,531,000 of employee compensation expense was included in the consolidated income statement for the prior year, the corresponding amount of which had been credited to employee compensation reserve. No liabilities were recognised on the equity-settled share-based payment transactions.

29. Reserves

Company

	Share premium account HK$'000 (Note)	Convertible bonds reserve HK$'000	Employee compen-sation reserve HK$'000	Convertible preferred shares reserve HK$'000	Accumulated losses HK$'000	Warrants reserve HK$'000	Total reserves HK$'000
Balance at 1 January 2006	56,610	–	–	–	(40,850)	473	16,233
Issues of new shares	97,456	–	–	–	–	–	97,456
Share issue expenses	(124)	–	–	–	–	–	(124)
Issue of convertible bonds	–	1,063	–	–	–	–	1,063
Employee share-based compensation	–	–	1,531	–	–	–	1,531
Issue of warrants	–	–	–	–	–	7,785	7,785
Exercise of warrants	772	–	–	–	–	(34)	738
Net loss for the year	–	–	–	–	(45,165)	–	(45,165)
Balance at 31 December 2006	154,714	1,063	1,531	–	(86,015)	8,224	79,517
Issue of shares on exercise of share options	10,639	–	(1,531)	–	–	–	9,108
Issue of shares on exercise of warrants	10,011	–	–	–	–	(605)	9,406
Issue of convertible bonds and convertible preferred shares	–	22,163	–	902,562	–	–	924,725
Issue expenses for convertible bonds	–	(700)	–	–	–	–	(700)
Deferred tax arising from equity components of convertible bonds and convertible preferred shares (note 25)	–	(3,541)	–	(148,923)	–	–	(152,464)
Net loss for the year	–	–	–	–	(44,182)	–	(44,182)
Balance at 31 December 2007	175,364	18,985	–	753,639	(130,197)	7,619	825,410

29. Reserves (continued)

Note: 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.

30. Non-cash transactions

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

During the current year, the Group utilised the long term deposit of approximately HK$18,627,000 as part of the consideration for the Acquisition.

31. Capital commitments

Capital commitments outstanding at the balance sheet date not provided for in the financial statements were as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Property, plant and equipment contracted but not provided for	**–**	148	**–**	–
Proposed investment in a venture contracted but not provided for (Note 37 and 18)	**182,959**	971,000	**–**	–
Proposed investment in a venture authorised but not contracted for (Note)	**–**	59,501	**–**	–
	182,959	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. The negotiation on the proposed investment was terminated as disclosed in the announcement of the Company dated 12 November 2007.

32. Operating lease arrangements

The Group

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

	2007	2006
	HK$'000	HK$'000
Minimum lease payments under operating leases recognised as an expense in the year	**743**	554

At the balance sheet date, the Group had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

	2007	2006
	HK$'000	HK$'000
Within one year	**721**	187
After one year but within five years	**947**	–
	1,668	187

The Company

The Company does not have any significant operating lease commitments.

33. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

(a) During the year and in the ordinary course of business, the Group had the following material transactions with related parties which are not members of the Group:

	2007	2006
	HK$'000	HK$'000
Shareholder		
Loan interest paid (Note)	**–**	39
Convertible bonds interest paid (Note)	**406**	262

Note: The loan was advanced from Future Advance, which bore interest at prime rate plus 1% per annum. The loan was settled by the Company's issue of convertible bonds to Future Advance during the prior year. Details of the terms of the convertible bonds issued to Future Advance are set out in note 24(ii) to the financial statements.

(b) Members of key management during the year comprised only of the directors whose remuneration is set out in note 15(a) to the financial statements.

34. Capital risk management

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

The capital structure of the Group consists of debts, which includes the convertible bonds and convertible preferred shares disclosed in notes 24 and 26 respectively, cash and cash equivalents disclosed in note 22 and equity attributable to equity holders of the Company, comprising share capital, reserves and retained earnings as disclosed in note 27 and consolidated statement of changes in equity, respectively.

The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of 5 to 10% determined as the proportion of net debt to equity. Based on the management's recommendations, the Group expects to increase its gearing ratio closer to approximately 5% through the issue of new debt and the payment of dividends if it is applicable.

The gearing ratio at the year end was as follows:

	2007	2006
	HK$'000	HK$'000
Debts	**277,099**	5,469
Cash and cash equivalents	**(294,063)**	(88,204)
Net debts	**(16,964)**	(82,735)
Equity	**2,084,581**	167,612
Net debt to equity ratio	**(0.8%)**	(49.4%)

35. Financial risk management

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

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

(a) Credit risk

The Group's credit risk is primarily attributable to its prepayments. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Majority of the balances represented prepayment for purchases of raw materials and the Group has monitored the progress of delivery of raw materials on an ongoing basis. Normally the Group does not obtain collateral for such prepayments.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset.

(b) Liquidity risk

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

(c) Interest rate risk

The Group's fair value interest-rate risk mainly arises from convertible bonds as disclosed in note 24. The convertible bonds were issued at fixed rates which expose the Group to fair value interest-rate risk. The Group has no cash flow interest-rate risk as there are no borrowings which bear floating interest rates. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

(d) Currency risk

The Group primarily operated in the PRC and most of its transactions are denominated and settled in RMB. Whilst the Company is based in Hong Kong and transacts primarily in Hong Kong dollars, its activities are mostly separate and independent from those of the PRC operation. The Group therefore does not have a significant exposure to currency risk.

35. Financial risk management (continued)

(e) Price risk

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of derivatives or other financial liabilities of the Group. As at the balance sheet date the Group is exposed to this risk through the conversion rights attached to the convertible notes issued by the Company during the year as disclosed in note 24(i) to the financial statements.

The following table indicates the approximate change in the Group's profit for the year and other components of consolidated equity in response to reasonably possible changes in the Company's own share price (for the conversion option of the convertible bonds) to which the Group and the Company have significant exposure at the balance sheet date.

	2007			2006		
The Group and company	**Decrease in the relevant risk variable**	**Effect on profit for the year and retained profits HK$'000**	**Effect on other components of equity HK$'000**	Decrease in the relevant risk variable	Effect on profit for the year and retained profits HK$'000	Effect on other components of equity HK$'000
Market price of underlying equity investments – Company's own share price (Note)	**N/A**	**1,166**	**1,166**	N/A	N/A	N/A

Note: The above analysis illustrates the financial impact, provided that during 60% of the total trading days during the term of the convertible bonds, the closing price of the ordinary shares of the Company is below HK$0.2.

35. Financial risk management (continued)

(e) Price risk (continued)

The sensitivity analysis has been determined assuming that the reasonably possible changes in the Company's own share price had occurred at the balance sheet date and had been applied to the exposure to equity price risk in existence at that date. The stated changes represent management's assessment of possible fluctuation in the Company's own share price over the period until the next annual balance sheet date.

The increase in the Company's own share price in contrary to the above analysis has no effect in profit for the year and other components of equity of the Group.

As there is no convertible bond with the conversion rights relating to the Company's own share price in the prior year, the analysis on the same basis for 2006 has not been presented.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006.

36. Summary of financial assets and financial liabilities by category

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2007 and 2006 may be categorised as follows:

	2007	2006
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and bank balances)	**323,700**	114,309
Financial liabilities		
Financial liabilities measured at amortised cost	**279,205**	8,031

37. Significant non-adjusting post balance sheet event

On 11 March 2008, the Company and a vendor entered into an agreement pursuant to which the Company conditionally agreed to purchase 100% of the issued share capital of Zhong Ping Resources Holdings Limited ("Zhong Ping"), a company incorporated in the British Virgin Islands with limited liability, for a total consideration of HK$198,920,000, which shall be satisfied as to (i) HK$40,080,000 by cash and (ii) HK$158,840,000 by the issue of the ordinary shares of the Company. Zhong Ping and its subsidiaries hold the majority interest of the mining licence in respect of a project located at Mungun-Undur, Khentii Province, Mongolia. The project has prospects for silver, lead, zinc, and tin mineralisation. As at 31 December 2007, an earnest money of HK$15,000,000 and a refundable deposit of HK$961,000 had been paid by the Group for this proposed acquisition. Further details are disclosed in the announcement of the Company dated 17 March 2008.

38. Comparative amounts

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

Financial Summary

(Expressed in Hong Kong dollars)

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

Results

	Year ended 31 December 2007 HK$'000	Year ended 31 December 2006 HK$'000	Year ended 31 December 2005 HK$'000	Year ended 31 December 2004 HK$'000	Year ended 31 December 2003 HK$'000
Revenue	**31,826**	34,806	24,614	7,038	3,769
Other revenue	**1,601**	1,077	27,995	224	224
Operating expenses	**(52,917)**	(41,440)	(29,062)	(12,725)	(13,692)
Share of profits less losses of an associate	**1,139,370**	–	–	–	–
Operating profit/(loss)	**1,119,880**	(5,557)	23,547	(5,463)	(9,699)
Finance costs	**(4,494)**	(301)	(159)	(11)	(122)
Profit/(loss) before income tax	**1,115,386**	(5,858)	23,388	(5,474)	(9,821)
Income tax expense	**272**	(135)	(6)	(195)	107
Net profit/(loss) for the year	**1,115,658**	(5,993)	23,382	(5,669)	(9,714)

Assets and Liabilities

	31 December				
	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000
Total assets	**2,515,997**	175,662	65,065	8,235	3,531
Total liabilities	**(431,416)**	(8,050)	(8,733)	(4,019)	(5,955)
	2,084,581	167,612	56,332	4,216	(2,424)