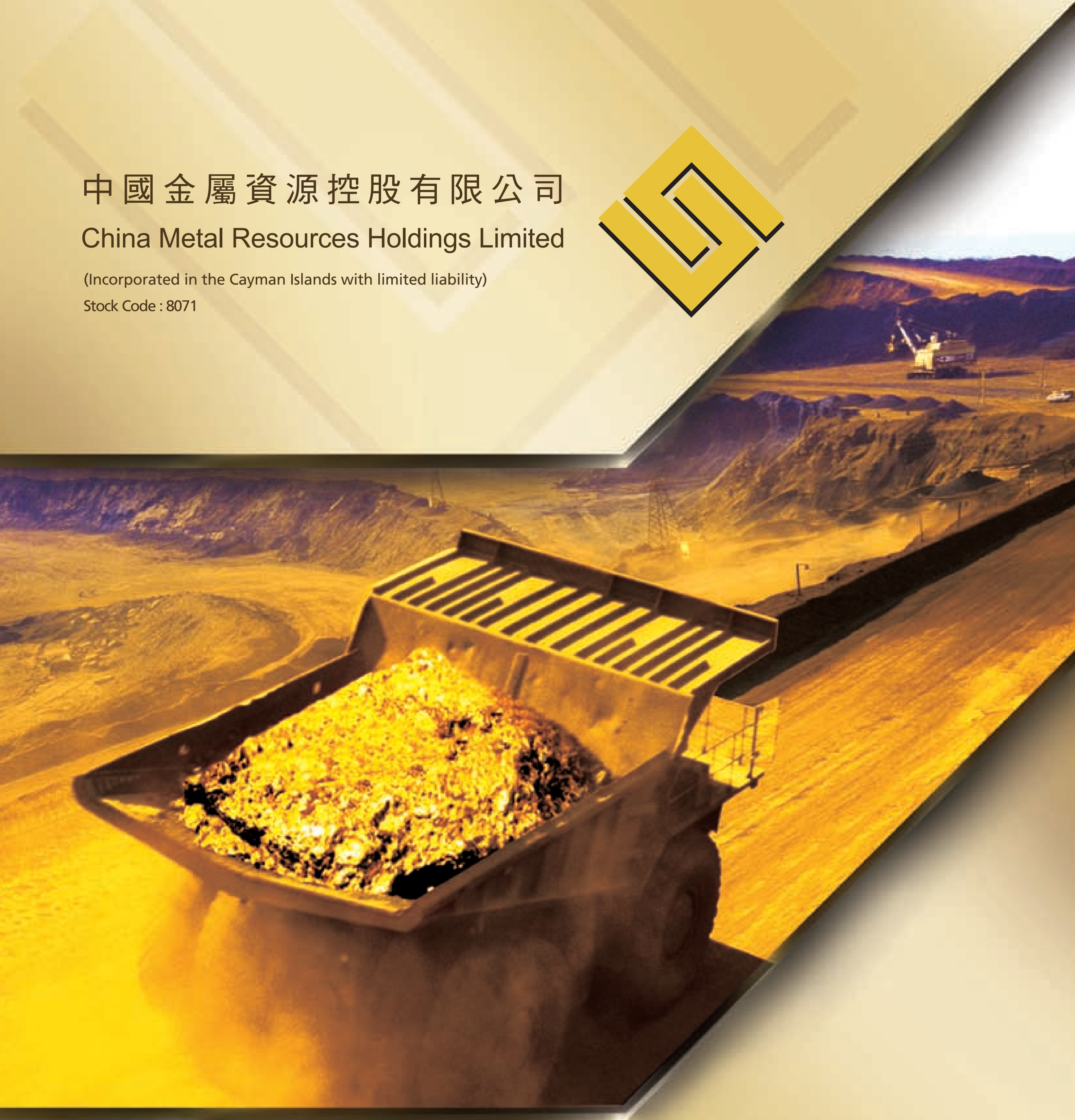
中國金屬資源控股有限公司

China Metal Resources Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8071



ANNUAL REPORT **2009**

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Leung Ngai Man *(Chairman)*
Mr. Ng Kwok Chu, Winfield
Ms. Wu Wei Hua

Independent non-executive Directors

Dr. Leung Wai Cheung
Mr. Gao Shikui
Mr. Cai Wei Lun

COMPANY SECRETARY

Ms. Man Tsz Sai, Lavender *ACIS, ACS*

COMPLIANCE OFFICER

Mr. Leung Ngai Man

AUTHORISED REPRESENTATIVES

Mr. Leung Ngai Man
Mr. Ng Kwok Chu, Winfield

AUDIT COMMITTEE

Dr. Leung Wai Cheung *(Chairman)*
Mr. Gao Shikui
Mr. Cai Wei Lun

REMUNERATION COMMITTEE

Dr. Leung Wai Cheung *(Chairman)*
Mr. Gao Shikui
Mr. Cai Wei Lun
Mr. Leung Ngai Man

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Citic Ka Wah Bank Limited

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1006, 10th Floor
Tower One Lippo Centre
89 Queensway
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICES

Principal Share Registrar

Butterfield Fund Services (Cayman) Limited
Butterfield House
Fort Street, P.O. Box 705
George Town, Grand Cayman
Cayman Islands

Branch Share Registrar

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

STOCK CODE

8071

WEBSITE

www.cmr8071.com

CHAIRMAN'S STATEMENT

On behalf of the board ("**Board**") of Directors, I hereby present to our shareholders the annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2009 ("**year**").

FINANCIAL HIGHLIGHTS

For the year, the Group's audited revenue and the loss attributable to owners of the Company were approximately HK$2,057,000 and HK$365,512,000 respectively, representing an increase of approximately HK$791,000 and an increase of approximately HK$315,393,000 respectively as compared with the audited revenue of approximately HK$1,266,000 and the loss attributable to owners of the Company of approximately HK$50,119,000 for the year ended 31 December 2008. Such increase of revenue was due to a significant rise in the revenue of the operating segment of trading of computer hardware and software. The main reason for the increase in the loss attributable to owners of the Company was due to: (i) the impairment of goodwill of HK$127,400,000; (ii) the impairment of supply contract of HK$287,020,000; and (iii) the imputed interest expenses on convertible bonds of HK$21,280,000.

BUSINESS REVIEW

The Group continuously developed in its staff secondment business, trading of computer hardware and software and exploration of mines.

Since the completion of the mine acquisition on 26 August 2008 (Details of which are set out in the announcement of the Company dated 23 January 2008 and the circular of the Company dated 13 May 2008), we have undertaken related exploration activities at our gold mine in Yunnan Province of the PRC.

Due to the effect from global financial turmoil and the economic downturn, the demand for trading of computer hardware and software products has been affected. However, as the information technology ("**IT**") is in need in the People's Republic of China ("**PRC**") market, the Company set up a new office in Dalian of the PRC to expand the development of the IT sector. The management adopted resolute measures to ensure stable operation and growth, which included initiatives to safeguard cash flow and enhance the turnover.

CHAIRMAN'S STATEMENT

PROSPECTS

While the economic landscape still look challenging for the year 2009/10, the Company will actively seek new investment opportunities to diversify the business with the best return for the shareholders of the Company.

APPRECIATION

On behalf of the Board, I would take this opportunity to express my sincere thanks to all Shareholders, business partners and professional advisors for their continuing support, and all the Directors and staffs of the Group for their loyalty, commitment and diligence in the past year.

Leung Ngai Man
Chairman of the Board

Hong Kong, 11 February 2010

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL REVIEW

During the year, the revenue of the Group was approximately HK$2,057,000 which increased by approximately HK$791,000 as compared with that of last year (2008: HK$1,266,000). The revenue was mainly derived from the provision of staff secondment and trading of computer hardware and software. Such increase was due to a significant rise in the revenue of the operating segment of trading of computer hardware and software.

The operating loss increased by approximately HK$413,512,000 to approximately HK$437,234,000 (2008: HK$23,722,000).

The loss for the year of approximately HK$365,512,000 (2008: HK$50,119,000) attributable to owners of the Company increased by approximately HK$315,393,000. The main reason for the increase in the loss attributable to owners of the Company was due to: (i) the impairment of goodwill of HK$127,400,000; (ii) the impairment of supply contract of HK$287,020,000; and (iii) the imputed interest expenses on convertible bonds of HK$21,280,000.

FINANCIAL REVIEW

Liquidity and financial resources

The Group financed its operations primarily with internally generated cash flow as well as the cash flow generated from the exercise of share options and disposal of property during the year. The Group adopted a conservative financial management and treasury policy and will continue to apply such policy in the coming year. The majority of bank balances are denominated in Hong Kong dollars and put in short term deposits.

As at 31 December 2009, the Group had cash and bank balances of approximately HK$11,422,000 (2008: HK$889,000). The increase of cash and bank balances was mainly due to the exercise of share options during the year.

As at 31 December 2009, the Group had no outstanding borrowings (2008: HK$319,150,000) as stated in the consolidated statement of financial position.

Capital structure

As at 31 December 2009, the Company's total number of issued shares was 3,625,855,247 ordinary shares of HK$0.001 each ("**Shares**") (2008: 2,796,500,247 Shares).

Changes in the share capital of the Company during the year are set out in note 23 to the financial statements.

Investments and disposal of property

1. On 12 September 2008, the Company entered into a conditional subscription agreement ("**Subscription Agreement**") with 北京中冶投資有限公司 (Beijing China Metallurgy Investment Limited*), pursuant to which the Company had agreed to allot and issue an aggregate of 90,000,000 Shares at the subscription price of HK$0.50 per subscription share ("**Subscription**"). (Details of the Subscription are set out in the Company's announcement dated 17 September 2008). The Subscription Agreement was subsequently terminated due to the unfulfillment of the conditions of the Subscription within one year after execution of the Subscription Agreement.

2. On 12 January 2009, 雲南省核工業209地質大隊 (Geological Brigade 209 of the Nuclear Industry of Yunnan Province*) ("**PRC Partner**") and 雲南西部礦業有限公司 (Yunnan Xibu Mining Company Limited*) ("**CJV**"), an indirect non wholly-owned subsidiary of the Company, entered into an agreement ("**Agreement**"), pursuant to which the CJV has conditionally agreed to pay up the additional amount of the registered capital of 潞西市核工業209芒市金礦 (Luxi City Nuckar Industry 209 Mangshi Gold Mine*), i.e. RMB4,732,000 (equivalent to approximately HK$5,347,160) ("**Investment**") (Details of the Investment are included in the Company's announcement dated 14 January 2009).

   On 31 July 2009, the PRC Partner and the CJV terminated the Agreement and the relevant supplemental agreement with effect from the date mentioned above (Details of the termination of the Agreement are included in the Company's announcement dated 31 July 2009).

3. On 27 February 2009, the disposal of a property located in Hong Kong at a selling price of HK$12,775,000 by the Company ("**Disposal**") was completed (Details of the Disposal are set out in the Company's announcement dated 18 December 2008 and the circular of the Company dated 8 January 2009).

* *unofficial English translation*

Disposal of a subsidiary

On 28 September 2009, the Group disposed of the entire interest and the intercompany loan of Jet Power Holdings Limited ("**Jet Power**"), a direct wholly-owned subsidiary of the Company, to Sino Prosper Coal Mining Investment Limited ("**Sino Prosper Coal Mining**") at a total consideration of approximately HK$1,451,000. Mr. Leung Ngai Man has indirect equity interests in both Jet Power and Sino Prosper Coal Mining. The fair value of the net assets of Jet Power attributable to the Group at the date of such disposal was immaterial to the Group. The completion of such disposal has not given rise to any material gain or loss to the Group and it was completed on 28 September 2009.

Segment review

During the year, the revenue from ordinary activities had been mainly derived from the following three business segments:

i) Staff secondment segment: its revenue decreased from approximately HK$620,000 to approximately HK$164,000 which represents a decrease of approximately 73.5% as compared with that of last year.

ii) Trading of computer hardware and software segment: this business segment is conducted in the PRC. It contributes approximately 92% of the total revenue of the Group.

iii) Exploration of mines segment – this segment represents the exploration of gold mine in the PRC.

The Group will continue to develop its staff secondment service, trading of computer hardware and software and also to seek investing in the natural resources sector.

Employee information

As at 31 December 2009, the Group employed a total of 13 (2008:26) employees. The staff costs, including Directors' remuneration and share-based payment, were approximately HK$7,288,000 (2008: HK$10,379,000).

The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The Group also operates a share option scheme where options to subscribe for Shares may be granted to the executive Directors, employees and consultants of the Group. The aim of the scheme is to recognise outstanding performance of the staff in order to retain key staff members and for the benefits of the future business development of the Group.

Charge on group assets

As at 31 December 2009, a fixed deposit of approximately HK$209,000 was pledged for obtaining the corporate card services (2008: HK$206,000).

Future plans for material investments or capital assets

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2009. However, the Group will continue to seek new business development opportunities.

Gearing ratio

As at 31 December 2009, the gearing ratio of the Group was Nil (2008: 0.291), based on the total borrowings of HK$Nil (2008: HK$319,150,000) and total equity of approximately HK$1,034,982,000 (2008: HK$1,095,817,000).

Exposure to fluctuation in exchange rates

The Group has no significant foreign exchange risk due to limited foreign currency translations.

Contingent liabilities

As at 31 December 2009, the Group had no significant contingent liabilities (2008: Nil).

BIOGRAPHICAL DETAILS OF DIRECTORS

Executive Directors

Mr. Leung Ngai Man, aged 48, joined the Group on 2 April 2007 and was appointed as the chief executive officer of the Company on 29 June 2007 and subsequently re-designated as the chairman of the Board on 31 March 2008. He is also a director of various subsidiaries of the Company. Mr. Leung has over 23 years' experience in the areas of trading, property development and management in the PRC. He has established an extensive business and social network and relationship with numerous PRC companies. He commenced business in the property development sector in the 1990s. Mr. Leung is also the chairman of the board and an executive director of Sino Prosper State Gold Resources Holdings Limited ("**Sino Prosper**"), a company listed on the Main Board of the Stock Exchange.

Mr. Ng Kwok Chu, Winfield, aged 51, joined the Group on 16 October 2007. He is also a director of various subsidiaries of the Company. Mr. Ng has over 21 years' experience in consumer and commercial finance in the markets of Hong Kong and the PRC. He is currently an independent non-executive director of Long Success International (Holdings) Limited, a company listed on GEM, and an executive director of Sino Prosper.

Ms. Wu Wei Hua, aged 39, joined the Group on 11 December 2007. She graduated from Donghua University in the PRC and obtained a Bachelor Degree in Textile Engineering. Ms. Wu has been working in the industry of finance and administration management in the PRC since 1995 and has gained extensive management experience throughout these years.

Independent non-executive Directors

Dr. Leung Wai Cheung, aged 45, joined the Group on 16 October 2007. Dr. Leung is a qualified accountant and chartered secretary with over 23 years of experience in accounting, auditing and financial management. He graduated from Curtin University with a Bachelor of Commerce Degree majoring in accounting and subsequently obtained a Postgraduate Diploma in Corporate Administration and a Master Degree in Professional Accounting from the Hong Kong Polytechnic University, a Doctor of Philosophy Degree in Management from the Empresarial University of Costa Rica and a Doctor of Education Degree from Bulacan State University. Dr. Leung is an associate member of each of the Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Accountants in England & Wales, CPA Australia, The Institute of Chartered Secretaries and Administrators, The Hong Kong Institute of Chartered Secretaries and the Taxation Institute of Hong Kong and a fellow member of the Association of Chartered Certified Accountants. He is also a visiting lecturer of the Open University of Hong Kong (LiPACE) and the Hong Kong University (SPACE). He is the chief financial officer of FlexSystem Holdings Limited, a company listed on GEM, and an independent non-executive director of each of Mobicon Group Limited, a company listed on the Main Board of the Stock Exchange, and Sino Prosper.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Gao Shikui, aged 58, joined the Group on 4 May 2009. He has over 37 years' experience in the areas of exploration, development, production and sales of crude oil and has held various senior positions in different major oil companies such as China National Oil Development Company Limited and China National Offshore Oil South East Company Limited, Everbright Petroleum (International) Limited and Everbridge Oil and Gas Development Investment Company Limited. Mr. Gao has been a vice chairman and the chief executive officer of Tibet 5100 Water Company Ltd.. He is currently the chief executive officer and holds president position in Beijing Sysmoto Interactive Communication Technology Co., Ltd..

Mr. Cai Wei Lun, aged 54, joined the Group on 11 August 2009. He has over 20 years' experience in the property development sector in the PRC. Mr. Cai is currently an independent non-executive director of Sino Prosper.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 17 to the financial statements. During the year, there were no significant changes in the nature of the Group's principal activities.

An analysis of the Group's performance for the year by business segments is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The Group's loss for the year ended 31 December 2009 and the state of affairs of the Group and of the Company as at that date are set out in the financial statements on pages 29 to 103.

The Directors do not recommend the payment of any dividend in respect of the year (2008: Nil).

SHARE CAPITAL, SHARE OPTIONS, WARRANTS AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options, warrants and convertible bonds during the year, together with the reasons thereof, are set out in notes 23, 24, 25 and 30 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements and the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

In accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business. As at 31 December 2009, the Company did not have any reserves available for distribution (2008: Nil).

PROPERTY, PLANT AND EQUIPMENT

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association ("**Articles**") or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and the assets and liabilities of the Group for the last five financial years as extracted from the audited financial statements of the Group is set out on page 104 of the annual report of the Company for the year ended 31 December 2009 ("**Annual Report**"), of which this report forms part.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Save as disclosed in the Annual Report, during the year, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the purchases and sales percentage from the major customers and suppliers of the Group is set out below:

		Percentage of total purchases
(1)	**Purchases**	
	– the largest supplier	92%
	– the five largest suppliers combined	100%

		Percentage of total sales
(2)	**Sales**	
	– the largest customer *(Note)*	24%
	– the five largest customers combined	100%

As far as the Directors are aware, none of the Directors or any of their associates, or any Shareholders (which, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers for the year.

Note: The largest customers are 大連博峰科技有限公司, 大連正風科技有限公司 and 遼寧宏安會計師事務所有限公司 which accounted for 24% each of the total sales of the Group.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Mr. Leung Ngai Man
Mr. Ng Kwok Chu, Winfield
Ms. Wu Wei Hua

Independent non-executive Directors

Dr. Leung Wai Cheung	
Mr. Gao Shikui	(appointed on 4 May 2009)
Mr. Cai Wei Lun	(appointed on 11 August 2009)
Mr. Chan Sing Fai	(retired on 9 April 2009)
Mr. Liu Jia Qing	(resigned on 12 May 2009)

In accordance with article 86(3) of the Articles, Mr. Gao Shikui and Mr. Cai Wei Lun shall hold office until the forthcoming annual general meeting of the Company ("**AGM**"). They, being eligible, will offer themselves for re-election as Directors at the forthcoming annual general meeting. In accordance with articles 87 (1) and (2) of the Articles, Mr. Ng Kwok Chu, Winfield and Dr. Leung Wai Cheung will retire as Directors by rotation and, being eligible, offer themselves for re-election as Directors at the AGM.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received annual written confirmations from each of its independent non-executive Directors in respect of their independence during the year and all independent non-executive Directors are still being considered to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 9 to 10 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

Mr. Leung Ngai Man, Mr. Ng Kwok Chu, Winfield and Ms. Wu Wei Hua have entered into service contracts with the Group on 27 May 2008, 1 December 2009 and 1 February 2010 respectively. All such contracts are for an initial term of two years. Either the Company or the aforesaid Directors may terminate the service contracts by giving one month's notice or payment of the one month's salary in lieu.

Save as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory obligations.

DIRECTOR'S INTERESTS IN CONTRACTS

Save as disclosed in note 32 to the financial statements, no Director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2009, the interests and short positions of the Directors and chief executive of the Company in the share capital of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong ("**SFO**")), as recorded in the register 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 were as follows:

Long positions in the ordinary Shares and underlying Shares

Name of Director	**Capacity**	**Number of Shares**	**Number of Underlying Shares**	**Total number of Shares and underlying Shares**	**Approximate percentage of the issued share capital**
Mr. Leung Ngai Man ("**Mr. Leung**")	Beneficial owner	843,430,000	–	843,430,000	23.26%
	Through a controlled corporation	1,474,400 *(Note 1)*	–	1,474,400	0.04%
Mr. Ng Kwok Chu, Winfield ("**Mr. Ng**")	Beneficial owner	472,500	10,000,000 *(Note 2)*	10,472,500	0.29%
Ms. Wu Wei Hua ("**Ms. Wu**")	Beneficial owner	–	10,000,000 *(Note 3)*	10,000,000	0.28%
Mr. Liu Jia Qing ("**Mr. Liu**")	Beneficial owner	–	1,250,000 *(Note 4)*	1,250,000	0.04%

Notes:

1. These Shares were held by Speedy Well Investments Limited ("**Speedy Well**") which was wholly and beneficially owned by Mr. Leung. By virtue of the SFO, Mr. Leung was deemed to be interested in the Shares held by Speedy Well.

2. On 10 July 2008, Mr. Ng was granted share options, pursuant to the share option scheme adopted by the Company on 29 June 2007 ("**Share Option Scheme**") to subscribe for a total of 20,000,000 shares at an exercise price of HK$0.1328 per share. The options would be exercisable during the period from 10 July 2008 to 29 June 2017. As a result of the consolidation of every two shares in the issued and unissued share capital of the Company into one consolidated share of HK$0.001 each which became effective on 21 October 2008 ("**Share Consolidation**"), the relevant subscription price was adjusted from HK$0.1328 to HK$0.2656 per Share and the number of Shares falling to be issued under the outstanding share options was adjusted from 20,000,000 shares to 10,000,000 Shares.

3. On 10 July 2008, Ms. Wu was granted share options, pursuant to the Share Option Scheme to subscribe for a total of 20,000,000 shares at an exercise price of HK$0.1328 per share. The options would be exercisable during the period from 10 July 2008 to 29 June 2017. As a result of the Share Consolidation, the relevant subscription price was adjusted from HK$0.1328 to HK$0.2656 per Share and the number of Shares falling to be issued under the outstanding share options was adjusted from 20,000,000 shares to 10,000,000 Shares.

4. Mr. Liu resigned as an independent non-executive Director on 12 May 2009.

Save as disclosed above, none of the Directors had registered an interest of short positions in the Shares or underlying Shares or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded 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.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraph headed "Directors' interests and short positions in the Shares and underlying Shares or any associated corporations" and in the Share Option Scheme at no time during the year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or minor children to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

On 29 June 2007, the Company adopted the Share Option Scheme which replaced its old share option scheme adopted on 19 February 2001.

Detailed movements in the Share Option Scheme for the year ended 31 December 2009 are as follow:

Name or category of participant	Share option type	At 1 January 2009#	Number of options granted	Number of options exercised	At 31 December 2009#	Date of grant of options	Exercise period of share options	Exercise price of share option# HK$	Closing price of Shares immediately before the date of grant of options# HK$
Directors									
Mr. Ng Kwok Chu, Winfield	2008	10,000,000	–	–	10,000,000	10 July 2008	10 July 2008 to 29 June 2017	0.2656	0.258
Ms. Wu Wei Hua	2008	10,000,000	–	–	10,000,000	10 July 2008	10 July 2008 to 29 June 2017	0.2656	0.258
Sub-total		20,000,000	–	–	20,000,000				
Ex-Director									
Mr. Liu Jia Qing ##	2008	1,250,000	–	–	1,250,000	10 July 2008	10 July 2008 to 29 June 2017	0.2656	0.258
Other eligible employees and others									
In aggregate	2007(a)	48,000,000	–	–	48,000,000	9 July 2007	9 July 2007 to 29 June 2017	0.2850	0.248
	2007(b)	41,000,000	–	–	41,000,000	22 August 2007	22 August 2007 to 29 June 2017	0.4060	0.364
	2008	50,000,000	–	–	50,000,000	10 July 2008	10 July 2008 to 29 June 2017	0.2656	0.258
	2009(a)	–	55,930,000	(55,930,000)	–	4 February 2009	4 February 2009 to 29 June 2017	0.0430	0.040
	2009(b)	–	110,000,000	(110,000,000)	–	18 May 2009	18 May 2009 to 29 June 2017	0.0880	0.074
	2009(c)	–	83,110,000	–	83,110,000	10 December 2009	10 December 2009 to 29 June 2017	0.1176	0.113
Sub-total		139,000,000	249,040,000	165,930,000	222,110,000				
Total		160,250,000	249,040,000	(165,930,000)	243,360,000				
Weighted average exercise price ***		0.3074	0.0878	0.0728	0.2425				

Notes:

*** The weighted average exercise price was adjusted under Share Consolidation.

The exercise price of the share options was subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. Following the Share Consolidation with effect from 21 October 2008, the total number of share options outstanding and the exercise price of the share options outstanding had been adjusted accordingly.

Mr. Liu Jia Qing resigned on 12 May 2009.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2009, no person or company (other than the Directors or chief executive of the Company) had an interest or short positions in the Shares, underlying Shares and debentures of the Company as recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO and were directly or indirectly interest in 5% or more of the nominal value of any class of the share capital carrying rights to vote on all circumstances at general meeting of any other members of the Group.

CONTRACT OF SIGNIFICANCE

During the year, the Group did not enter into any contract of significance with its controlling Shareholders or any of its subsidiaries.

During the year, no contract of significance for the provision of services to the Group by a controlling Shareholder or any of its subsidiaries was made.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 32 to the financial statements and such related party transactions do not fall under the definition of "connected transaction" or "continuing connected transaction" in chapter 20 of the GEM Listing Rules.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors, the management Shareholders or substantial Shareholders or any of their respective associates has engaged in any business that competes or may compete with the businesses of the Group or has any other conflict of interests with the Group.

SUBSEQUENT EVENT

Change of Auditors

As announced by the Company on 18 December 2009, the Company proposed to appoint HLB Hodgson Impey Cheng as its auditors to fill the casual vacancy arising from the resignation of Grant Thornton effective 18 December 2009. An ordinary resolution was duly passed by the Shareholders on 15 January 2010 approving the change.

DISCLOSURE OF INFORMATION ON DIRECTOR PURSUANT TO RULE 17.50A(1) OF THE GEM LISTING RULES

The updated information on Director discloseable under Rule 17.50A(1) of the GEM Listing Rules is as follows:

– Dr. Leung Wai Cheung, an independent non-executive Director, resigned as the independent non-executive director of United Gene High-Tech Group Limited and Wing Hing International (Holdings) Limited, both companies are listed on the Main Board of the Stock Exchange, on 6 November 2009 and 30 October 2009 respectively.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report. The Company has maintained a sufficient public float in compliance with Rule 18.08B of the GEM Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control and risk management systems of the Group. During the year, the audit committee held four meetings. The annual results of the Group for the year ended 31 December 2009 have been reviewed by the audit committee which is of the opinion that the preparation of such results complied with the applicable accounting standards, the Stock Exchange requirements and other legal requirements, and that adequate disclosures have been made.

Further details of the audit committee are set out in the Corporate Governance Report included in the Annual Report.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 19 to 26 of the Annual Report.

AUDITORS

Grant Thornton ("**GT**") was re-appointed as the auditors of the Group at the Company's annual general meeting held on 9 April 2009 and resigned on 18 December 2009. HLB Hodgson Impey Cheng ("**HLB**") was appointed as auditors of the Company following the resignation of GT and the appointment of HLB was approved by the Shareholders at the extraordinary general meeting held on 15 January 2010.

HLB will retire at the AGM and, being eligible, offer themselves for reappointment. A resolution for the re-appointment of HLB as auditors of the Company will be proposed at the AGM.

By Order of the Board
China Metal Resources Holdings Limited
Ng Kwok Chu, Winfield
Executive Director

Hong Kong, 11 February 2010

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and, save as disclosed herein, has complied with the code provisions of the Code on Corporate Governance Practices ("**CG Code**") as set out in Appendix 15 to the GEM Listing Rules throughout the year ended 31 December 2009.

THE BOARD AND THE MEETINGS OF THE BOARD

The Board has overall responsibility for the stewardship of the Group, including the responsibilities for the adoption of long-term strategies and appointing and supervising senior management to ensure that the operation of the Group is conducted in accordance with the objective of the Group. The senior management committee was established on 27 June 2005 and of its members are Mr. Leung Ngai Man, the Chairman of the Board, Mr. Ng Kwok Chu, Winfield and Ms. Wu Wei Hua, three executive Directors.

The Board currently comprises six Directors and their respective roles are set out as follows:

Mr. Leung Ngai Man	Chairman and executive Director
Mr. Ng Kwok Chu, Winfield	Executive Director
Ms. Wu Wei Hua	Executive Director
Dr. Leung Wai Cheung	Independent non-executive Director
Mr. Gao Shikui (appointed on 4 May 2009)	Independent non-executive Director
Mr. Cai Wei Lun (appointed on 11 August 2009)	Independent non-executive Director

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the GEM Listing Rules.

The Company has appointed three independent non-executive Directors whom the Board considers to have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of the Shareholders. Currently, Dr. Leung Wai Cheung, Mr. Gao Shikui and Mr. Cai Wei Lun are the independent non-executive Directors. All of them are under a term of service of one year commencing from the date of their respective appointment or the date of entering into their respective service contract. All Directors, including the independent non-executive Directors, are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles, provided that the appointment may be terminated by the Company or the Director concerned with a written notice of not less than one month unless both parties agreed otherwise.

During the year, the Board had undergone the following changes:

– Mr. Chan Sing Fai retired from the office of an independent non-executive Director on 9 April 2009 for pursuing his business development; and

– Mr. Liu Jia Qing resigned from the office of an independent non-executive Director on 12 May 2009 for pursuing his business development.

The Company had at least three independent non-executive Directors at all times during the year except for the following period:

– Following the retirement of Mr. Chan Sing Fai on 9 April 2009 and up to 4 May 2009, the date on which Mr. Gao Shikui was appointed as an independent non-executive Director and a member of the audit committee of the Company, the number of independent non-executive Directors and audit committee members of the Company fell below the minimum number required under Rules 5.05(1) and 5.28 of the GEM Listing Rules respectively.

– Following the resignation of Mr. Liu Jia Qing on 12 May 2009 and up to 11 August 2009, the date on which Mr. Cai Wei Lun was appointed as an independent non-executive Director and a member of the audit committee of the Company, the number of independent non-executive Directors and audit committee members of the Company fell below the minimum number required under Rules 5.05(1) and 5.28 of the GEM Listing Rules respectively.

Save for the co-directorship of Mr. Leung Ngai Man, Mr. Ng Kwok Chu, Winfield, Dr. Leung Wai Cheung and Mr. Cai Wei Lun in Sino Prosper, there is no relationship (including financial, business, family or other material/relevant relationships) among members of the Board. All of them are free to exercise their independent judgement. Prior to their respective appointment, each of the independent non-executive Directors submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has received annual written confirmations from all independent non-executive Directors in respect of their independence during the year pursuant to the GEM Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the GEM Listing Rules.

In accordance with the Articles, one-third of the Directors are subject to retirement by rotation or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from the office and being eligible offer themselves for re-election provided that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. The Directors to be retired by rotation shall be those who have been longest in office since their last appointment or re-appointment or those who were appointed by the Board during the year to fill any casual vacancy.

The Board meets regularly (at least four times a year at quarterly intervals) for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. Additional meetings are convened as and when the Board considers necessary. Twenty-four Board meetings (four of which were regular Board meetings) were held during the year. The Directors attended those meetings in person, by phone or through other electronic means of communication. The attendance record of each Director during the year ended 31 December 2009 is set out below:

Directors	**Number of Board meetings Directors attended/ eligible to attend**
Executive Directors	
Mr. Leung Ngai Man	24/24
Mr. Ng Kwok Chu, Winfield	24/24
Ms. Wu Wei Hua	8/24
Independent non-executive Directors	
Dr. Leung Wai Cheung	9/24
Mr. Gao Shikui (appointed on 4 May 2009)	5/20
Mr. Cai Wei Lun (appointed on 11 August 2009)	3/10
Mr. Chan Sing Fai (retired on 9 April 2009)	0/3
Mr. Liu Jia Qing (resigned on 12 May 2009)	0/5

Execution of daily operational matters is delegated to the management.

In case where conflict of interest arises involving a substantial Shareholder or a Director, such matter will not be dealt with by written resolutions. Independent non-executive Directors with no conflict of interest will be dealt with such conflict issues.

The board committees of the Company, including the Audit Committee and the Remuneration Committee, have all adopted the applicable practices and procedures used in Board meetings for all committee meetings.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The appointment of the chief executive officer of the Company remains outstanding. The Company is still looking for a suitable candidate to fill the vacancy in order to comply with the Corporate Governance Code.

NOMINATION OF DIRECTORS

The selection and appointment of a Director and the Directors' independence are determined by the full Board. The Board also reviews its composition (including skills, knowledge and experience of its members) regularly to ensure its members can provide balanced skills and experience. The Board is satisfied with the current system of Director's nomination and appointment and therefore it does not consider the establishment of a nomination committee is necessary.

The Audit Committee and the Remuneration Committee have adopted specific terms of reference clearly defining their respective powers and responsibilities. These committees are required by their terms of reference to report to the Board in relation to their decisions, findings or recommendations, and in certain specific situations, to seek the Board's approval before taking any actions.

The Board reviews, on a yearly basis, all delegations by the Board to each of the committees to ensure that such delegations are appropriate and continue to be beneficial to the Group as a whole.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 27 June 2005, comprising the three independent non-executive Directors and the Chairman of the Board.

The committee is currently chaired by Dr. Leung Wai Cheung, an independent non-executive Director, and other members include Mr. Gao Shikui and Mr. Cai Wei Lun, both of them are also independent non-executive Directors, and Mr. Leung Ngai Man, the Chairman of the Board.

The role and functions of the Remuneration Committee include the determination of the specific remuneration packages of all Directors, which include benefits in kind, pension rights and compensation payments, comprising any compensation payable for loss or termination of their office or appointment. The Remuneration Committee also considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The Remuneration Committee collects and reviews the remuneration plan and policy of all Directors and the senior management of the Group by reference to the prevailing rate which other companies listed on GEM adopt.

During the year ended 31 December 2009, three meetings of the Remuneration Committee were held. Details of the attendance of the meeting are as follows:

Members	**Number of Remuneration Committee meetings attended/eligible to attend**
Dr. Leung Wai Cheung	3/3
Mr. Gao Shikui (appointed on 4 May 2009)	2/2
Mr. Cai Wei Lun (appointed on 11 August 2009)	1/1
Mr. Chan Sing Fai (retired on 9 April 2009)	0/0
Mr. Liu Jia Qing (resigned on 12 May 2009)	1/1

During the year, the Remuneration Committee had undergone the following changes:

– Mr. Chan Sing Fai retired from the office of a member of the Remuneration Committee on 9 April 2009 for pursuing his own business development;

– Mr. Liu Jia Qing resigned from the office of a member of the Remuneration Committee on 12 May 2009 for pursuing his own business development;

– Mr. Gao Shikui was appointed as a member of the Remuneration Committee on 4 May 2009; and

– Mr. Cai Wei Lun was appointed as a member of the Remuneration Committee on 11 August 2009.

AUDITORS' REMUNERATION

As at 31 December 2009, the fee payable to the auditors in respect of the audit and non-audit services provided by the auditors of the Group is as follows:

Type of services	**Amount** *(HK$'000)*
Audit services	350

AUDIT COMMITTEE AND ACCOUNTABILITY

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Board is also responsible for preparing the accounts of the Company, which give a true and fair view of the financial position of the Group on a going concern basis, and other price-sensitive announcements and financial disclosures. The management provides all relevant information and records to the Board enabling the Board to make the above assessment and to prepare the accounts and other financial disclosures.

In full compliance with Rule 5.28 of GEM Listing Rules, the Audit Committee, which has been established since the listing of the Company, is composed of the three independent non-executive Directors and is currently chaired by Dr. Leung Wai Cheung with the other members being Mr. Gao Shikui and Mr. Cai Wei Lun.

During the year, the following persons served as members of the Audit Committee:

Name	Service period
Dr. Leung Wai Cheung	From 1 January 2009 to 31 December 2009
Mr. Gao Shikui	From 4 May 2009 to 31 December 2009
Mr. Cai Wei Lun	From 11 August 2009 to 31 December 2009
Mr. Chan Sing Fai	From 1 January 2009 to 8 April 2009
Mr. Liu Jia Qing	From 1 January 2009 to 11 May 2009

During the year, no former partner of the Company's existing auditing firm acted as a member of the Audit committee within one year on the date of his or her ceasing to be a partner or had any financial interest in the auditing firm.

There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors during the year.

The Audit Committee's primary duties include ensuring the Group's financial statements, annual, interim and quarterly reports, and the auditors' report present a true and balanced assessment of the Group's financial position, reviewing the Group's financial control, internal control and risk management systems and reviewing the Group's financial and accounting policies and practices.

The work done by the Audit Committee during the year ended 31 December 2009 are set out as follows:–

(a) reviewing and recommending the annual report, interim report and quarterly reports for the relevant period or year to the Board for approval;

(b) discussing the application of the new accounting policy with the external auditors;

(c) recommending the re-appointment of the auditors to the Board for approval; and

(d) reviewing the internal control system and the recommendation made by the external auditors.

The Audit Committee is provided with sufficient resources enabling it to discharge its duties.

For the financial year ended 31 December 2009, the Audit Committee held four meetings. The individual attendance record of each member of the Audit Committee is as follows:

Member	**Number of Audit Committee meetings attended/ eligible to attend**
Dr. Leung Wai Cheung	4/4
Mr. Gao Shikui (appointed on 4 May 2009)	3/3
Mr. Cai Wei Lun (appointed on 11 August 2009)	2/2
Mr. Chan Sing Fai (retired on 9 April 2009)	0/1
Mr. Liu Jia Qing (resigned on 12 May 2009)	1/1

The secretary of the Company keeps full minutes of all meetings of the Audit Committee. In line with practices of the meetings of the Board and other committees, draft and final versions of the minutes of the meetings of the Audit Committee are circulated to all members of the Audit Committee for comments, approval and record as soon as practicable after each meeting.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES TRANSACTIONS BY DIRECTORS

During the year, the Group adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding Directors' securities transactions in securities of the Company. Upon the Group's specific enquiry, each Director confirmed that during the year ended 31 December 2009, he or she had fully complied with the required standard of dealings and there was no event of non-compliance.

DIRECTORS' AND AUDITORS' ACKNOWLEDGEMENT

All Directors acknowledge their responsibility for preparing the accounts for the year ended 31 December 2009.

The auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year ended 31 December 2009.

INTERNAL CONTROL

The Board has conducted a review of the effectiveness of the Group's internal control system, covering its financial, operational, compliance control and risk management functions.

By order of the Board
China Metal Resources Holdings Limited
Ng Kwok Chu, Winfield
Executive Director

Hong Kong, 11 February 2010

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
CHINA METAL RESOURCES HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Metal Resources Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 103, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 11 February 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Revenue	6	**2,057**	1,266
Cost of sales		**(1,867)**	(980)
Gross profit		**190**	286
Other operating income	7	**71**	618
Selling and distribution expenses		**–**	(114)
Administrative expenses		**(22,106)**	(18,962)
Impairment of goodwill		**(127,400)**	–
Impairment of supply contract		**(287,020)**	–
Impairment loss of prepaid lease payment		**–**	(4,442)
Impairment loss of property, plant and equipment		**–**	(447)
Impairment loss of inventories		**–**	(65)
Other operating expenses		**(969)**	(596)
Finance costs	8	**(21,280)**	(26,523)
Loss before income tax	9	**(458,514)**	(50,245)
Income tax credit	10	**44,244**	–
Loss for the year		**(414,270)**	(50,245)
Other comprehensive income			
Exchange differences on translating foreign operations		**(4,722)**	(38)
Other comprehensive income for the year, net of tax		**(4,722)**	(38)
Total comprehensive income for the year		**(418,992)**	(50,283)
Loss attributable to:			
Owners of the Company	11	**(365,512)**	(50,119)
Non-controlling interests		**(48,758)**	(126)
		(414,270)	(50,245)
Total comprehensive income attributable to:			
Owners of the Company		**(370,167)**	(50,157)
Non-controlling interests		**(48,825)**	(126)
		(418,992)	(50,283)
Loss per share for loss attributable to owners of the Company	12		
– Basic and diluted		**(11.6 HK cents)**	(2.8 HK cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	15	**277**	392
Prepaid lease payment	16	**–**	–
Goodwill	18	**1,002,198**	1,134,000
Other intangible assets	19	**22,158**	308,385
		1,024,633	1,442,777
Current assets			
Trade receivables	21	**41**	114
Prepayments, deposits and other receivables		**539**	6,954
Pledged deposit	22	**209**	206
Cash and bank balances	22	**11,422**	889
		12,211	8,163
Property classified as held for sale	20	**–**	12,597
		12,211	20,760
Current liabilities			
Other payables and accrued expenses		**1,851**	4,313
Current tax liabilities		**11**	–
		1,862	4,313
Net current assets		**10,349**	16,447
Total assets less current liabilities		**1,034,982**	1,459,224
Non-current liabilities			
Convertible bonds	30	**–**	319,150
Deferred tax liabilities	31	**–**	44,257
		–	363,407
Net assets		**1,034,982**	1,095,817
Capital and reserves			
Share capital	23	**3,626**	2,797
Reserves		**1,029,513**	1,042,352
Equity attributable to owners of the Company		**1,033,139**	1,045,149
Non-controlling interests		**1,843**	50,668
Total equity		**1,034,982**	1,095,817

The consolidated financial statements on pages 29 to 103 were approved and authorised for issue by the Board of Directors on 11 February 2010 and signed on its behalf by:

Leung Ngai Man
Director

Ng Kwok Chu, Winfield
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	15	**159**	221
Investments in subsidiaries	17	**1,035,296**	1,285,296
		1,035,455	1,285,517
Current assets			
Prepayments and other receivables		**160**	2,317
Cash and bank balances	22	**124**	66
		284	2,383
Current liabilities			
Other payables and accrued expenses		**5**	439
Amounts due to subsidiaries	17	**3,797**	3
		3,802	442
Net current (liabilities)/assets		**(3,518)**	1,941
Total assets less current liabilities		**1,031,937**	1,287,458
Non-current liabilities			
Convertible bonds	30	**–**	319,150
Net assets		**1,031,937**	968,308
Capital and reserves			
Share capital	23	**3,626**	2,797
Reserves	25	**1,028,311**	965,511
Total equity		**1,031,937**	968,308

Leung Ngai Man
Director

Ng Kwok Chu, Winfield
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Equity attributable to owners of the Company											
	Share capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000	Convertible bond equity reserve HK$'000	Share option reserve HK$'000	Translation reserve HK$'000	Warrant reserve HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2008	1,181	122,425	–	–	9,772	(39)	259	–	(44,175)	89,423	–	89,423
Loss for the year	–	–	–	–	–	–	–	–	(50,119)	(50,119)	(126)	(50,245)
Other comprehensive income for the year	–	–	–	–	–	(38)	–	–	–	(38)	–	(38)
Total comprehensive income for the year	–	–	–	–	–	(38)	–	–	(50,119)	(50,157)	(126)	(50,283)
Issuance of new shares, net of share issue expense	217	46,130	–	–	–	–	–	–	–	46,347	–	46,347
Recognition of equity-settled share-based payments	–	–	–	–	5,068	–	–	–	–	5,068	–	5,068
Proceeds from shares issued under share option scheme	5	650	–	–	(185)	–	–	–	–	470	–	470
Proceeds from shares issued upon exercise of warrants	133	29,377	–	–	–	–	(259)	–	–	29,251	–	29,251
Issuance of convertible bonds	–	–	–	333,772	–	–	–	–	–	333,772	–	333,772
Exercise of convertible bonds	1,262	808,342	–	(218,090)	–	–	–	–	–	591,514	–	591,514
Repurchase of shares	(1)	(490)	1	–	–	–	–	–	–	(490)	–	(490)
Additional interest in a subsidiary acquired by the Group	–	–	–	–	–	–	–	(49)	–	(49)	–	(49)
Arising from acquisition of subsidiaries (note 28)	–	–	–	–	–	–	–	–	–	–	50,794	50,794
Balance at 31 December 2008	2,797	1,006,434	1	115,682	14,655	(77)	–	(49)	(94,294)	1,045,149	50,668	1,095,817

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Equity attributable to owners of the Company										
	Share capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000	Convertible bond equity reserve HK$'000	Share option reserve HK$'000	Translation reserve HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2009	2,797	1,006,434	1	115,682	14,655	(77)	(49)	(94,294)	1,045,149	50,668	1,095,817
Loss for the year	–	–	–	–	–	–	–	(365,512)	(365,512)	(48,758)	(414,270)
Other comprehensive income for the year	–	–	–	–	–	(4,655)	–	–	(4,655)	(67)	(4,722)
Total comprehensive income for the year	–	–	–	–	–	(4,655)	–	(365,512)	(370,167)	(48,825)	(418,992)
Recognition of equity-settled share-based payments	–	–	–	–	9,672	–	–	–	9,672	–	9,672
Proceeds from shares issued under share option scheme	166	17,761	–	–	(5,841)	–	–	–	12,086	–	12,086
Exercise of convertible bonds	663	451,162	–	(114,603)	–	–	–	–	337,222	–	337,222
Redemption of convertible bonds	–	–	–	(1,079)	–	–	–	256	(823)	–	(823)
Balance at 31 December 2009	3,626	1,475,357*	1*	–*	18,486*	(4,732)*	(49)*	(459,550)*	1,033,139	1,843	1,034,982

* The aggregate amount of these reserve accounts is included in the consolidated reserves of HK$1,029,513,000 (2008: HK$1,042,352,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Cash flows from operating activities			
Loss before income tax		**(458,514)**	(50,245)
Adjustments for:			
Amortisation of prepaid lease payment		**–**	299
Depreciation of property, plant and equipment		**126**	456
Expense recognised in respect of equity-settled share-based payments		**9,672**	5,068
Gain on disposal of property classified as held for sale		**(18)**	–
Gain on disposal of a subsidiary		**(45)**	–
Loss on disposal of property, plant and equipment		**–**	364
Loss on redemption of convertible bonds		**969**	–
Impairment of goodwill		**127,400**	–
Impairment of supply contract		**287,020**	–
Impairment loss of prepaid lease payment		**–**	4,442
Impairment loss of property, plant and equipment		**–**	447
Impairment loss of inventories		**–**	65
Write back of amount due to minority shareholders of subsidiaries		**–**	(550)
Written off on property, plant and equipment		**–**	232
Interest income		**(8)**	(68)
Interest expense		**21,280**	26,523
Movements in working capital		**(12,118)**	(12,967)
Decrease in trade receivables		**73**	18
Decrease/(Increase) in prepayments, deposits and other receivables		**6,415**	(2,227)
(Decrease)/Increase in other payables and accrued expenses		**(2,462)**	2,764
Cash used in operations		**(8,092)**	(12,412)
Interest paid		**–**	(110)
Income tax paid		**(2)**	–
Net cash used in operating activities		**(8,094)**	(12,522)
Cash flows from investing activities			
Additional interest in a subsidiary acquired by the Group		**–**	(49)
Payments for intangible assets		**(1,086)**	(215)
Proceeds from disposal of property, plant and equipment		**–**	900
Proceeds from disposal of property classified as held for sale		**12,615**	–
Payments for property, plant and equipment		**(1,417)**	(125)
Net cash outflow on acquisition of subsidiaries	28	**–**	(86,666)
Net cash inflow on disposal of a subsidiary	29	**1,451**	–
Interest received		**8**	68
Increase in pledged deposit		**(3)**	(6)
Net cash generated by/(used in) investing activities		**11,568**	(86,093)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Cash flows from financing activities			
Proceeds from issue of shares		**12,086**	29,721
Payment for redemption of convertible bonds		**(5,000)**	–
Repurchase of shares		**–**	(490)
Repayment of loans to a shareholder		**–**	(3,200)
Net cash generated by financing activities		**7,086**	26,031
Net increase/(decrease) in cash and cash equivalents		**10,560**	(72,584)
Cash and cash equivalents at the beginning of year		**889**	73,463
Effect of foreign exchange rate changes, net		**(27)**	10
Cash and cash equivalents at the end of year		**11,422**	889
Analysis of the balances of cash and cash equivalents	22		
Cash and bank balances		**11,422**	837
Short-term time deposits		**–**	52
		11,422	889

1. GENERAL INFORMATION

China Metal Resources Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (1998 Revision) of the Cayman Islands and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

During the year, the Company and its subsidiaries (together referred to as the "Group") was involved in the following principal activities:

- provision of staff secondment
- trading of computer hardware and software
- exploration of mines

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied all of the new and revised standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for annual periods beginning on or after 1 January 2009. The new and revised standards, amendments and interpretations adopted in the current year are referred to as "new and revised HKFRSs".

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (revised in 2007) Presentation of Financial Statements

HKAS 1 (2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments (see note 5).

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs affecting presentation and disclosure only (Continued)

Improving Disclosure about Financial Instruments

(Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements and liquidity risk. The Group has not presented comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

Standards and interpretations in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRS issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendments)	Classification of Rights Issues[4]
HKAS 39 (Amendments)	Eligible Hedge Items[1]
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters[3]
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments (relating to the classification and measurement of financial assets)[7]
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 July 2010
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 January 2013

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Standards and interpretations in issue but not yet effective (Continued)

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition dates are on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of improvements to HKFRSs (2009), HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

The Group is in the process of making an assessment of the impact of the other new and revised standards, amendments and interpretations upon initial application. So far, it has concluded that the other new and revised standards, amendments and interpretations are unlikely to have significant impact on the Group's results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost convention except as otherwise stated in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

Subsidiaries

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

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the estimation of fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

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

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the end of the reporting period.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsidiaries (Continued)

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

Goodwill

Goodwill arising on an acquisition of a business is carried at costs less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generated unit, the attributed amount of goodwill is included in the determination of the profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition of revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of ordinary activities, net of discounts and sales related taxes.

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

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income from a financial asset (other than a financial assets at fair value through profit or loss) is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance costs and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

The Group as lessee (Continued)

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the exchange rates prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income in the consolidated financial statements and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are recognised directly in other comprehensive income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case, the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interest as appropriate).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

On disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the translation reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation before 1 January 2005 are treated as non-monetary foreign currency items of the acquirer and reporting using historical cost prevailing at the date of acquisition.

Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs and short term employee benefits

Retirement benefit costs

Retirement benefits to employees are provided through defined contribution plans.

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

Pursuant to the relevant regulations of the government of the People's Republic of China except Hong Kong (the "PRC"), subsidiaries of the Company operating in the PRC participate in a local municipal government retirement benefits scheme (the "PRC Scheme"), whereby the subsidiaries are required to make contributions, as calculated under the rules specified by the relevant PRC local government authorities, to the PRC Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries. The only obligation of the Group with respect to the PRC Scheme is to pay the ongoing required contributions under the PRC Scheme mentioned above. Contributions under the PRC Scheme are charged to the statement of comprehensive income as incurred. There are no provisions under the PRC Scheme whereby forfeited contributions may be used to reduce future contributions.

Short term employee benefits

Provisions for bonus due are recognised when the Group has a present legal or constructive obligations as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions

Share options granted to employees in an equity-settled share-based payment transactions

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve). At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

For share options that are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings/accumulated losses.

Share options granted to consultants in an equity-settled share-based payment transactions

Share options issued in exchange for goods or services are measured at fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of goods or services received are recognised as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to equity (share option reserve).

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. 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 deferred tax 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, 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.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly to equity, in which case, the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid lease payment and property, plant and equipment

Prepaid lease payment represents up-front payments to acquire long term interest in the usage of land. They are stated at cost and charged to statement of comprehensive income over the remaining period of the lease on a straight-line basis net of any impairment losses.

Building held for own use which are situated on prepaid lease payments, where the fair value of the buildings could be measured separately from the fair value of the prepaid lease payments, and other items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, as follows:

Medium term leasehold building in Hong Kong	Over the shorter of the lease terms or 50 years
Furniture, fixtures and fittings	2-5 years
Computer and office equipment	2-5 years
Motor vehicles	5-10 years

The assets' useful lives are reviewed, and adjusted if appropriate, at each of the end of the reporting periods.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is recognised on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less impairment losses. Exploration and evaluation assets include topographical and geological survey drilling, exploratory drillings, sampling and trenching and expenditure incurred for the technical feasibility studies and incurred to secure further mineralisation in the mine ore. Expenditure incurred prior to obtaining the exploration and evaluation rights to explore an area are written off as incurred. Once the technical feasibility and commercial viability of extracting the mineral resource had been determined and that the project reaches development phase, exploration and evaluation costs capitalised are amortised. If exploration property is abandoned during the evaluation stage, the total expenditure thereon will be written off.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible 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. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (if any).

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 the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, available-for-sale financial assets and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets **(Continued)**

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities with the Group's management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment losses (see the accounting policy in respect of impairment losses on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the investments revaluation reserve until the financial asset is disposed of or determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, deposits and other receivables, pledged deposit and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment (see the accounting policy in respect of impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial asset, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the investments revaluation reserve. In respect of available-for-sale debt securities, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL, of which the interest expense is included in net gains or losses.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities at FVTPL (Continued)

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities (including other payables and accrued expenses) are subsequently measured at amortised cost, using the effective interest method.

Convertible bonds that contain an equity component

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Convertible bonds that contain an equity component (Continued)

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

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Derecognition

The Group derecognised a financial asset only when the contractual rights to the cash flows from the asset expire, or when a financial asset is transferred, the Group has transferred 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.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

Impairment of intangible assets – "exploration and evaluation assets"

The carrying value of exploration and evaluation assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The Group considers all facts and circumstances occurred to judge whether these facts and circumstances would suggest that the carrying amount of the exploration and evaluation assets may exceed its recoverable amount (i.e. impaired). Based on the judgement of the directors, there was no impairment on the exploration and evaluation assets and no impairment loss is recognised for the year ended 31 December 2009. Management reassesses the impairment of intangible assets at the end of the reporting period.

Impairment of intangible assets – "supply contract"

The carrying value of supply contract is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The Group considers all facts and circumstances occurred, including the effect of future gold price, whether Yunnan Western can obtain the government authority's approval to amend its principal activities for the inclusion of purchasing and processing of gold minerals and whether the ore supplier is able to renew its mining operation permit, to judge whether these facts and circumstances would suggest that the carrying amount of the supply contract may exceed its recoverable amount (i.e. impaired). Management reassesses the impairment of intangible assets at the end of the reporting period.

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

Critical judgements in applying accounting policies (Continued)

Goodwill

In the opinion of the directors, the consideration paid for the Mine Acquisition include a premium paid for the future expectations on the gold price and the potential resources of gold in the exploration area.

As the estimation of the effect of future gold price is impossible as gold is a commodity and its price fluctuation depends on many factors, including demand and supply of gold. Accordingly, the directors considered there is no reliable fair value of the effect of future gold price and no separate intangible asset should be recognised in respect of the gold premium on date of acquisition.

Engineering estimates of the Group's gold reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable gold reserve estimates are updated on a regular basis and have taken into account recent production and technical information about each gold mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable gold reserves also changes. As at date of acquisition, there was no gold mine located in the exploration area, accordingly, the directors considered there is no reliable fair value of the gold reserves and no separate intangible asset should be recognised in respect of the gold reserves on date of acquisition.

Key sources of estimation uncertainty

Valuation of share options granted

The fair value of share options granted was calculated using the Black-Scholes valuation model based on the Group management's significant inputs into calculation including an estimated life of share options granted, based on exercise restrictions and behavioural consideration, the volatility of share price, weighted average share prices and exercise price of the share options granted. Furthermore, the calculation assumes nil future dividends.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amount of cash-generating units ("CGU") has been determined based on value-in-use calculation. This calculation requires the use of estimates (note 18).

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

Critical judgements in applying accounting policies (Continued)

Estimated impairment of goodwill **(Continued)**

An impairment charge of HK$127,400,000 arose in the CGU of exploration of mines during the course of the 2009 resulting in the carrying amount of the CGU being written down to its recoverable amount. If the estimated gold price used in the value-in-use calculation for the CGU of exploration of mines had been 5% lower than management's estimates at 31 December 2009, the Group would have recognised a further impairment of goodwill by HK$78,033,000. If the estimated pre-tax discount rate applied to the discounted cash flows for the CGU of exploration of mines had been 1% higher than management's estimates (for example, 22.94% instead of 21.94%), the Group would have recognised a further impairment against goodwill of HK$75,311,000.

5. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and to assessing their performance. In contrast, the predecessor standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

The Group's operating and reportable segments under HKFRS 8 are therefore as follows:

(a) Staff secondment business – this segment represents the staff secondment to generate income from the staff performing system integration for the external party;

(b) Trading of computer hardware and software business – this segment represents the trading of computer hardware and software in the People's Republic of China ("PRC"); and

(c) Exploration of mining business – this segment represents the exploration of gold mines in the PRC.

Information regarding the Group's reportable segments is presented below. Amounts reported for the prior year have been restated to conform to the requirements of HKFRS 8.

5. SEGMENT INFORMATION (Continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

	Staff secondment		Trading of computer hardware and software		Exploration of mines		Consolidated	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Segment revenue:								
Sales to external customers	**164**	620	**1,893**	646	**–**	–	**2,057**	1,266
Segment (loss)/profit	**(76)**	(184)	**(149)**	491	**(437,694)**	(27,120)	**(437,919)**	(26,813)
Interest and other income							**69**	48
Central administration costs							**(20,664)**	(23,445)
Finance costs							**–**	(35)
Loss before income tax							**(458,514)**	(50,245)

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year (2008: Nil).

Segment (loss)/profit represents the loss incurred/profit earned by each segment without allocation of central administration costs, and interest and other income. This is the measure reported to the chief operation decision maker for the purposes of resource allocation and assessment of segment performance.

5. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

	Staff secondment		Trading of computer hardware and software		Exploration of mines		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**51**	223	**2,713**	72	**1,024,443**	1,446,938	**1,027,207**	1,447,233
Corporate and unallocated assets							**9,637**	16,304
Consolidated assets							**1,036,844**	1,463,537
Segment liabilities	**80**	103	**307**	285	**79**	45,797	**466**	46,185
Corporate and unallocated liabilities							**1,396**	321,535
Consolidated liabilities							**1,862**	367,720

For the purposes of monitoring segment performance and allocating resources between segments:

– all assets are allocated to reportable segments other than pledged deposit and other unallocated head office and corporate assets. Goodwill and other intangible assets are allocated to reportable segment; and

– all liabilities are allocated to reportable segments other than other unallocated head office and corporate liabilities.

5. SEGMENT INFORMATION (Continued)

Other segment information

	Staff secondment		Trading of computer hardware and software		Exploration of mines		Consolidated	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Depreciation	**–**	12	**4**	2	**2**	1	**6**	15
Unallocated depreciation							**120**	441
Total depreciation							**126**	456
Amortisation of prepaid lease payment							**–**	299
Loss on disposal of property, plant and equipment							**–**	364
Impairment loss of property, plant and equipment							**–**	447
Impairment loss of prepaid lease payment							**–**	4,442
Loss on redemption of convertible bonds	**–**	–	**–**	–	**969**	–	**969**	–
Written off on property, plant and equipment	**–**	–	**–**	–	**–**	232	**–**	232
Impairment of goodwill	**–**	–	**–**	–	**127,400**	–	**127,400**	–
Impairment of supply contract	**–**	–	**–**	–	**287,020**	–	**287,020**	–
Impairment loss of inventories	**–**	65	**–**	–	**–**	–	**–**	65
Additions to non-current assets	**–**	–	**11**	9	**1,086**	308,409	**1,097**	308,418
Unallocated							**1,406**	116
Total additions to non-current assets							**2,503**	308,534

5. SEGMENT INFORMATION (Continued)

Geographical information

The Group's operations are located in two principal geographical areas – the PRC and Hong Kong.

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Revenue from external customers		Non-current assets*	
	2009	2008	**2009**	2008
	HK'000	HK'000	**HK'000**	HK'000
Hong Kong	**164**	620	**259**	379
PRC	**1,893**	646	**1,024,374**	1,442,398
	2,057	1,266	**1,024,633**	1,442,777

* Non-current assets excluding financial instruments, deferred tax assets, post-employment benefits assets and assets from insurance contracts.

Information about major customers

For the year ended 31 December 2009, there were four customers with revenue of approximately HK$499,000, HK$499,000, HK$499,000 and HK$396,000 respectively which accounted for more than 10% of the total revenue related to trading of computer hardware and software segment.

For the year ended 31 December 2008, there were two customers with revenue of approximately HK$620,000 and HK$646,000 which accounted for more than 10% of the total revenue related to staff secondment segment and trading of computer hardware and software segment respectively.

6. REVENUE

Revenue represents the invoiced value of goods supplied and services rendered arising from the principal activities of the Group during the year.

	2009 HK$'000	2008 HK$'000
Staff secondment income	**164**	620
Trading of computer hardware and software income	**1,893**	646
	2,057	1,266

7. OTHER OPERATING INCOME

	2009 HK$'000	2008 HK$'000
Bank interest income	**8**	68
Gain on disposal of a subsidiary	**45**	–
Gain on disposal of property classified as held for sale	**18**	–
Write back of amount due to minority shareholders of subsidiaries	**–**	550
	71	618

8. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Interest on:		
Loans from a shareholder wholly repayable within one year	**–**	35
Convertible bonds	**21,280**	26,488
	21,280	26,523

9. LOSS BEFORE INCOME TAX

	2009 HK$'000	2008 HK$'000
Loss before income tax is arrived at after charging:		
Cost of goods sold	**1,723**	448
Cost of services provided (note (i))	**144**	532
Auditors' remuneration	**350**	550
Employee benefit expense (excluding directors' emoluments) (note (ii))	**3,348**	5,531
Directors' emoluments	**3,940**	4,848
	7,288	10,379
Minimum lease payments paid under operating leases in respect of:		
– Land and buildings	**648**	48
– Computer server	**–**	2
– Colour printer	**17**	4
Net foreign exchange loss	**5**	12
Depreciation of property, plant and equipment	**126**	456
Amortisation of prepaid lease payment	**–**	299
Loss on redemption of convertible bonds (note (iii))	**969**	–
Loss on disposal of property, plant and equipment (note (iii))	**–**	364
Written off on property, plant and equipment (note (iii))	**–**	232

Notes:

(i) Cost of services provided included HK$144,000 (2008: HK$530,000) relating to employee benefit expense. This amount is included in both "Cost of services provided" and "Employee benefit expense" disclosed above.

(ii) Employee benefit expense (excluding directors' emoluments) included equity-settled share option expense of HK$1,184,000 (2008: HK$2,957,000) disclosed above.

(iii) The loss on redemption of convertible bonds, loss on disposal of property, plant and equipment and written off on property, plant and equipment are included in other operating expenses.

10. INCOME TAX CREDIT

Income tax recognised in profit or loss

	2009 HK$'000	2008 HK$'000
Current tax:		
PRC Enterprise Income Tax	13	–
Deferred tax:		
Current year	(44,257)	–
Total income tax recognised in profit or loss	(44,244)	–

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profit tax rate from 17.5% to 16.5%, which is effective from the year of assessment 2008/2009. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Hong Kong Profits Tax had not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year ended 31 December 2009 (2008: Nil).

The PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (for both years).

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

The tax credit for the year can be reconciled to the loss before income tax per the consolidated statement of comprehensive income as follows:

	2009 HK$'000	2008 HK$'000
Loss before income tax	(458,514)	(50,245)
Tax at the Hong Kong Profits Tax rate of 16.5% (2008: 16.5%)	(75,655)	(8,290)
Tax effect on different tax rate of group entities operating in other jurisdictions	(99)	(13)
Tax effect of expenses not deductible for tax purpose	31,204	8,250
Tax effect of income not taxable for tax purpose	(12)	(8)
Tax effect of deductible temporary differences not recognised	–	2
Tax effect of tax losses not recognised	318	183
Utilisation of tax losses previously not recognised	–	(124)
Tax credit for the year	(44,244)	–

11. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated loss for the year attributable to owners of the Company of approximately HK$365,512,000 (2008: HK$50,119,000), a loss of approximately HK$294,528,000 (2008: HK$44,588,000) has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to owners of the Company of approximately HK$365,512,000 (2008: HK$50,119,000) and on the weighted average number of 3,151,654,000 (2008: 1,803,964,000) ordinary shares of the Company in issue during the year.

The computation of diluted loss per share did not assume the exercise of the Company's potential ordinary shares granted under the Company's share option scheme, convertible bonds and outstanding warrants since their exercise and conversion would have an anti-dilutive effect.

13. EMPLOYEE BENEFIT EXPENSE (EXCLUDING DIRECTORS' EMOLUMENTS)

	2009 **HK$'000**	2008 HK$'000
Wages and salaries	**2,022**	2,468
Equity-settled share-based payments	**1,184**	2,957
Contributions to retirement benefits schemes	**142**	106
	3,348	5,531

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENT

Directors' emoluments

The emoluments paid or payable to the directors were as follows:

	Fees HK$'000	Salaries and other benefits HK$'000	Contributions to retirement benefits scheme HK$'000	Equity-settled share option expenses HK$'000	Total HK$'000
Year ended 31 December 2009					
Executive directors					
Leung Ngai Man	**–**	**2,600**	**12**	**–**	**2,612**
Ng Kwok Chu, Winfield	**–**	**520**	**12**	**–**	**532**
Wu Wei Hua	**–**	**724**	**12**	**–**	**736**
Independent non-executive directors					
Leung Wai Cheung	**60**	**–**	**–**	**–**	**60**
Gao Shikui (note (i))	**–**	**–**	**–**	**–**	**–**
Cai Wei Lun (note (ii))	**–**	**–**	**–**	**–**	**–**
Chan Sing Fai (note (v))	**–**	**–**	**–**	**–**	**–**
Liu Jia Qing (note (vi))	**–**	**–**	**–**	**–**	**–**
	60	**3,844**	**36**	**–**	**3,940**
Year ended 31 December 2008					
Executive directors					
Leung Ngai Man	–	1,517	7	–	1,524
Ng Kwok Chu, Winfield	–	520	12	994	1,526
Wu Wei Hua	–	546	11	994	1,551
Choi Koon Ming (note (iii))	–	–	–	–	–
Chow Yeung Tuen, Richard (note (iv))	–	47	4	–	51
Independent non-executive directors					
Leung Wai Cheung	73	–	–	–	73
Chan Sing Fai (note (v))	–	–	–	–	–
Liu Jia Qing (note (vi))	–	–	–	123	123
	73	2,630	34	2,111	4,848

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENT (Continued)

Directors' emoluments (Continued)

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2008: Nil).

Notes:

(i) Appointed on 4 May 2009

(ii) Appointed on 11 August 2009

(iii) Retired on 31 March 2008

(iv) Resigned on 15 February 2008

(v) Retired on 9 April 2009

(vi) Resigned on 12 May 2009

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three executive directors (2008: three) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2008: two) highest paid individuals during the year are as follows:

	2009 **HK$'000**	2008 HK$'000
Basic salaries, allowances and other benefits in kind	**2,024**	1,978
Contributions to retirement benefits scheme	**22**	12
	2,046	1,990

The emoluments fell within the following band:

	Number of individuals	
	2009	2008
Emolument bands		
Nil – HK$1,000,000	**1**	2
HK$1,500,001 – HK$2,000,000	**1**	–

During the year, no emoluments were paid by the Group to the five highest paid employees or the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office (2008: Nil).

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Building HK$'000	Furniture, fixtures and fittings HK$'000	Computer and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST					
Balance at 1 January 2008	1,630	37	436	1,889	3,992
Additions	–	94	31	–	125
Addition through acquisition of subsidiaries	–	–	234	169	403
Transferred to property classified as held for sale	(1,630)	–	–	–	(1,630)
Disposals	–	–	–	(1,580)	(1,580)
Written off	–	–	(227)	(169)	(396)
Balance at 31 December 2008	–	131	474	309	914
Additions	–	–	11	1,406	1,417
Derecognised on disposal of a subsidiary	–	–	–	(1,406)	(1,406)
Balance at 31 December 2009	–	131	485	309	925
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
Balance at 1 January 2008	(3)	(9)	(352)	(52)	(416)
Depreciation expense	(31)	(25)	(49)	(351)	(456)
Addition through acquisition of subsidiaries	–	–	(125)	(39)	(164)
Impairment loss recognised in profit or loss	(447)	–	–	–	(447)
Eliminated on transferred to property classified as held for sale	481	–	–	–	481
Eliminated on disposals	–	–	–	316	316
Written off	–	–	125	39	164
Balance at 31 December 2008	–	(34)	(401)	(87)	(522)
Depreciation expense	–	(23)	(41)	(62)	(126)
Balance at 31 December 2009	–	(57)	(442)	(149)	(648)
CARRYING AMOUNTS					
Balance at 31 December 2009	**–**	**74**	**43**	**160**	**277**
Balance at 31 December 2008	–	97	73	222	392

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Motor vehicle
	HK$'000
COST	
Balance at 1 January 2008, 31 December 2008 and 31 December 2009	309
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
Balance at 1 January 2008	(26)
Depreciation expense	(62)
Balance at 31 December 2008	(88)
Depreciation expense	(62)
Balance at 31 December 2009	(150)
CARRYING AMOUNTS	
Balance at 31 December 2009	**159**
Balance at 31 December 2008	221

16. PREPAID LEASE PAYMENT

The Group's interests in leasehold land represent prepaid operating lease payment and their net book value was analysed as follows:

Group

	2009	2008
	HK$'000	HK$'000
CARRYING AMOUNTS		
Balance at beginning of year	–	16,189
Amortisation of prepaid lease payment	–	(299)
Impairment loss recognised in the year	–	(4,442)
Transferred to property classified as held for sale	–	(11,448)
Balance at end of year	–	–

17. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES

Company

	2009 HK$'000	2008 HK$'000
Unlisted shares, at cost	**1,285,296**	1,285,296
Impairment loss recognised in the year	**(250,000)**	–
	1,035,296	1,285,296

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

Particulars of the subsidiaries at 31 December 2009 are as follows:

Name of subsidiary	Place of incorporation/ registration/ operations	Particulars of issued and fully paid share capital/ registered capital	Percentage of issued capital held by the Company: Directly	Percentage of issued capital held by the Company: Indirectly	Principal activity
E-silkroad.net Corporation ("E-silkroad.net")	British Virgin Islands	1 ordinary share of US$1	100%	–	Investment holding
E-silkroad.net Online Exhibition Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Development of e-commerce business, provision of web page design and website maintenance services
E-silkroad.net Online Commerce Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Inactive
Business Essence Technology Limited	British Virgin Islands	1 ordinary share of US$1	–	100%	Investment holding
E-silkroad.net Resources Limited	British Virgin Islands	1 ordinary share of US$1	–	100%	Inactive

17. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES (Continued)

Company (Continued)

Name of subsidiary	Place of incorporation/ registration/ operations	Particulars of issued and fully paid share capital/ registered capital	Percentage of issued capital held by the Company Directly	Indirectly	Principal activity
中山市光彩未來軟件有限公司 ("**Zhongshan GF**")	PRC*	HK$8,000,000	–	95%	Provision of web page design services, application development and technical support services and trading of computer hardware and software
Leland Solutions Limited ("**Leland**")	Hong Kong	100,000 ordinary shares of HK$1 each	–	100%	Provision of web page design services, website maintenance, staff secondment, system integration and information technology consultancy services
Richtop Holdings Limited ("**Richtop**")	Hong Kong	1 ordinary share of HK$1	100%	–	Investment holding
Greatest High Holdings Limited	British Virgin Islands	1 ordinary share of US$1	100%	–	Investment holding
Merit Billion Limited	Hong Kong	1 ordinary share of HK$1	100%	–	Investment holding
China Nonferrous Metals Resources Investment Limited	British Virgin Islands	1 ordinary share of US$1	–	100%	Investment holding
China Mining Group Investment Limited	Hong Kong	1 ordinary share of HK$1	–	100%	Investment holding
Yunnan Western Mining Company Limited ("**Yunnan Western**")	PRC**	US$3,185,405	–	80%	Exploration of mines
Easywin International Holdings Limited	British Virgin Islands	1 ordinary share of US$1	100%	–	Investment holding
大連兆忠科技有限公司 ("**Dalian Merit Billion**")	PRC***	RMB500,000	–	100%	Trading of computer hardware and software
Glory Top Management Limited	Hong Kong	1 ordinary share of HK$1	100%	–	Investment holding

* Zhongshan GF is registered as a contractual joint venture under the PRC law.

** Yunnan Western is registered as a contractual joint venture under the PRC law.

*** Dalian Merit Billion is a limited liability company established in the PRC.

18. GOODWILL

Group

	2009	2008
	HK$'000	HK$'000
COST		
Balance at beginning of year	**1,134,000**	–
Acquisition of subsidiaries	**–**	1,134,000
Effect of foreign currency exchange differences	**(4,402)**	–
Balance at end of year	**1,129,598**	1,134,000
ACCUMULATED IMPAIRMENT LOSSES		
Balance at beginning of year	**–**	–
Impairment loss recognised in the year	**(127,400)**	–
Balance at end of year	**(127,400)**	–
CARRYING AMOUNTS		
Balance at end of year	**1,002,198**	1,134,000

The goodwill is resulted from the Mine Acquisition as detailed in note 28.

The carrying amount of goodwill as at 31 December 2009 of HK$1,002,198,000 (2008: HK$1,134,000,000) is allocated to the cash generating units of exploration of mines.

A valuation of the business project is carried out by LCH (Asia-Pacific) Surveyors Limited ("LCH") to assess the recoverable amount of the cash generating units of exploration of mines.

The recoverable amount of the exploration of mines' cash generating unit was determined based on a value-in-use calculation using cash flow projections based on a business plan of mine operation covering a fourteen-year period approved by the management. In the opinion of the directors, it is justifiable to use a fourteen-year period business plan to determine the recoverable amount of the goodwill allocated to the cash generating units of exploration of mines as the business plan is prepared based on the annual extraction of gold ore in the coming fourteen-year period. By using this method, the expected cash flows on the business project are set out year by year and brought to a present value by use of present value factors at the discount rate of 21.94% (2008: 19.88%). In determining discount rate, the weighted average cost of capital was used, which was an average representing the expected return on all capital based on the figures from similar publicly traded companies in the stock exchanges of the PRC and other countries with mining projects. For the estimation of the inflation rate, the local provincial economy, the PRC economy and the gold market were taken as reference.

18. GOODWILL (Continued)

The Group management's key assumptions used in the value-in-use calculation were as follows:

– the Group is able to renew its exploration permit from time to time and obtain the mining operation permit.

– the exploration works and the subsequent mining operations will confirm the quality and quantity expected in the business plan of the mines operation.

– the expectation of future gold price.

The management of the Group reviewed and compared their exploration works performed in the specific area to their previous estimate as set out in the business plan of mine operation. They considered that they need to adjust the business plan of mine operation, including but not limited to, the timescale for the exploration work. These adjustments to the business plan of mine operation affect the expected cash flows on the CGU of exploration of mines. Accordingly, the recoverable amount of goodwill allocated to the CGU of exploration of mines at 31 December 2009 has been reassessed and an impairment charge of goodwill of HK$127,400,000 was charged to the consolidated statement of comprehensive income.

19. OTHER INTANGIBLE ASSETS

Group

	Exploration and evaluation assets HK$'000	Supply contract HK$'000	Total HK$'000
CARRYING AMOUNTS			
Balance at 1 January 2008	–	–	–
Acquisition of subsidiaries	21,150	287,020	308,170
Additions	215	–	215
Balance at 31 December 2008	21,365	287,020	308,385
Additions	1,086	–	1,086
Impairment loss recognised in the year	–	(287,020)	(287,020)
Effect of foreign currency exchange differences	(293)	–	(293)
Balance at 31 December 2009	**22,158**	**–**	**22,158**

19. OTHER INTANGIBLE ASSETS (Continued)

Group (Continued)

During the year ended 31 December 2008, the Group acquired China Nonferrous Metals and its subsidiaries ("Target Group"). Details of the Mine Acquisition (as defined below) were mentioned in note 28.

The exploration and evaluation assets acquired in the Mine Acquisition include topographical and geological survey drilling, exploratory drillings, sampling and trenching and expenditure incurred for the technical feasibility studies and incurred to secure further mineralisation in the mine ore after Yunnan Western obtained the exploration and evaluation rights of the exploration area. In the opinion of the directors, after considering the advice from a firm of professional valuers, the fair value of the exploration and evaluation assets on date of the Mine Acquisition was equal to the cost incurred as at the valuation date. The main reason was that, the exploration was still at an initial stage on acquisition date, any acquirer of such exploration rights would still need to invest approximately the same amount of money to explore the mines and prepare the relevant feasibility studies in order to get the mining rights.

The exploration and evaluation assets acquired were measured under the cost model after the initial recognition. As at 31 December 2009 and 2008, in the opinion of the directors, there is no indication of impairment on the exploration and evaluation assets acquired.

In December 2007, a supply agreement (the "Supply Contract") was entered into between Yunnan Western and 潞西市核工業209芒市金礦 (Luxi City Nuclear Industry 209 Mangshi Gold Mine (the "Ore Supplier")) in respect of the supply of all the ores extracted from the mine owned by the Ore Supplier to Yunnan Western. The Ore Supplier owns a mining operation permit of a mining site (the "Mine") for a period of 10 years, from 23 September 1999 to 23 September 2009. The Supply Contract was valued by LCH on date of the Mine Acquisition at a fair value of approximately HK$287,020,000 (equivalent to RMB254,000,000). The Supply Contract acquired was measured under the cost model after the initial recognition. Amortisation for the Supply Contract was provided based on the unit of production method. Such method was selected on the basis of the expected pattern of consumption of the gold ore. As the Group had not utilised any gold ore from the Supply Contract for the years ended 31 December 2008 and 2009, no amortisation of the Supply Contract was provided for both years.

As at 31 December 2008, there was no indication of impairment on the Supply Contract. The recoverable amount of the Supply Contract as at 31 December 2008 was estimated using the value-in-use calculation with discount rate of 19.88% used in the model. The discount rate was supported by observable market transactions and determined based on available observable market data. The major assumption for the valuation basis was Yunnan Western was able to amend its principal activities for the inclusion of purchasing and processing of gold minerals and the Ore Supplier was able to renew its mining operation permit.

19. OTHER INTANGIBLE ASSETS (Continued)

Group (Continued)

Based on the current policy in the mining industry of the PRC, in the opinion of directors, it is very difficult for Yunnan Western to obtain the government authority's approval to amend its principal activities for the inclusion of purchasing and processing of gold minerals from Ore Supplier by the end of the Supply Contract. The Supply Contract has been cancelled and no further negotiation has been made to re-activate the Supply Contract (i.e. 31 December 2010). The recoverable amount of the Supply Contract at 31 December 2009 has been reassessed and an impairment loss of Supply Contract of approximately HK$287,020,000 are charged to the consolidated statement of comprehensive income.

20. PROPERTY CLASSIFIED AS HELD FOR SALE

Group

	2009 **HK$'000**	2008 HK$'000
Transferred from property, plant and equipment	–	1,149
Transferred from prepaid lease payment	–	11,448
	–	12,597

On 16 December 2008, the Group entered into a provisional agreement with an independent third party to dispose of its office premises at a consideration of HK$12,775,000. Accordingly, this property was reclassified as "property classified as held for sale". At 31 December 2008, the carrying amount of this property was adjusted to HK$12,597,000 with reference to the consideration as stipulated in the sale and purchase agreement and an impairment loss of property, plant and equipment amounted to HK$447,000 and impairment loss of prepaid lease payment amounted to HK$4,442,000 were charged to the consolidated statement of comprehensive income. This transaction was completed on 27 February 2009.

21. TRADE RECEIVABLES

Group

	2009 HK$'000	2008 HK$'000
Trade receivables	**41**	114

The Group allows a credit period of 45 days (2008: 30 days to 90 days) to its trade customers. The following is an ageing analysis of net trade receivables at the end of the reporting period:

	2009 HK$'000	2008 HK$'000
0-30 days	**13**	14
31-60 days	**14**	14
61-90 days	**14**	86
	41	114

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the end of the reporting period but against which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

The ageing analysis of trade receivables that are not impaired is as follows:

	2009 HK$'000	2008 HK$'000
Neither past due nor impaired	**27**	114
Past due but not impaired	**14**	–
	41	114

22. CASH AND BANK BALANCES/PLEDGED DEPOSIT

Group

	2009	2008
	HK$'000	HK$'000
Cash at banks and in hand	**11,631**	1,043
Short-term bank deposits	**–**	52
Pledged deposit	**(209)**	(206)
Cash and cash equivalents	**11,422**	889

Pledged deposit represents deposit pledged to bank for obtaining the corporate card services.

Company

	2009	2008
	HK$'000	HK$'000
Cash at banks and in hand	**124**	14
Short-term bank deposits	**–**	52
Cash and cash equivalents	**124**	66

Bank balances carry interest at floating rates based on daily bank deposit rates. The pledged bank deposit carries fixed interest rate of 1.25% (2008: 3%).

Included in cash at banks and in hand of the Group is HK$2,677,000 (2008: HK$81,000) of bank balances denominated in Renminbi ("RMB") placed with banks in the PRC. RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

23. SHARE CAPITAL

The share capital of the Company consists only of ordinary shares. All shares are equally eligible to receive dividends and the repayment of capital.

		Number of shares of HK$0.0005 each		Number of shares of HK$0.001 each		Share capital	
		2009	2008	**2009**	2008	**2009**	2008
	Notes	**'000**	'000	**'000**	'000	**HK$'000**	HK$'000
Authorised:							
Ordinary shares at beginning of year		**–**	200,000,000	**–**	–	**100,000**	100,000
Share Consolidation	(i)	**–**	(200,000,000)	**100,000,000**	100,000,000	**–**	–
Ordinary shares at end of year		**–**	–	**100,000,000**	100,000,000	**100,000**	100,000

		Number of shares of HK$0.0005 each		Number of shares of HK$0.001 each		Share capital	
		2009	2008	**2009**	2008	**2009**	2008
	Notes	**'000**	'000	**'000**	'000	**HK$'000**	HK$'000
Issued and fully paid:							
Ordinary shares at beginning of year		**–**	2,361,711	**2,796,500**	–	**2,797**	1,181
Exercise of share options	(iii)	**–**	9,900	**165,930**	–	**166**	5
Exercise of warrants	(iv)	**–**	265,909	**–**	–	**–**	133
Share Consolidation	(i)	**–**	(3,871,000)	**–**	1,935,500	**–**	–
Exercise of convertible bonds	(v)	**–**	803,000	**663,425**	861,000	**663**	1,262
Repurchase of shares	(vi)	**–**	(2,670)	–	–	**–**	(1)
Issuance of Consideration Shares	(ii)	**–**	433,150	**–**	–	**–**	217
Ordinary shares at end of year		**–**	–	**3,625,855**	2,796,500	**3,626**	2,797

23. SHARE CAPITAL (Continued)

Notes:

(i) Share Consolidation

On 20 October 2008, the shareholders of the Company approved the consolidation of every two ordinary shares of HK$0.0005 each in the then issued and unissued share capital of the Company into one consolidated share of HK$0.001 each ("Consolidated Share") which became effective on 21 October 2008 ("Share Consolidation"), such that the authorised share capital of the Company has been changed from HK$100,000,000 comprising 200,000,000,000 shares of HK$0.0005 each to HK$100,000,000 comprising 100,000,000,000 Consolidated Shares of HK$0.001 each and the issued share capital of the Company has been adjusted from 3,871,000,494 shares to 1,935,500,247 Consolidated Shares.

(ii) Issuance of new shares

On 26 August 2008, 433,150,000 shares of HK$0.0005 each ("Consideration Shares") were issued to Mr. Leung Ngai Man ("Mr. Leung"), as part of the consideration for the Mine Acquisition as detailed in note 28. The 433,150,000 Consideration Shares were recorded at HK$0.107 each, being the published share price available at the date of completion of the Mine Acquisition. The 433,150,000 Consideration Shares of HK$0.0005 each rank pari passu in all respect with the existing issued shares of the Company.

(iii) Exercise of share options

On 18 February 2008, 9,900,000 ordinary shares of HK$0.0005 each were issued pursuant to the subscription rights attaching to the share options at an exercise price of HK$0.0475 per share. Following the subdivision of each share of HK$0.01 into 20 subdivided shares of HK$0.0005 each with effect from 23 August 2007 and the Share Consolidation with effect from 21 October 2008, the total number of share options and the exercise price had been adjusted accordingly.

Share options were exercised by optionholders during the year ended 31 December 2009 to subscribe for a total of 165,930,000 shares of HK$0.001 each by payment of subscription monies of approximately HK$12,086,000, of which approximately HK$166,000 was credited to share capital and the balance of approximately HK$11,920,000 was credited to the share premium account.

23. SHARE CAPITAL (Continued)

Notes: (Continued)

(iv) Exercise of warrants

During the year ended 31 December 2008, 265,909,088 warrants were exercised for shares of HK$0.0005 each with an exercise price of HK$0.11 per warrant.

(v) Exercise of convertible bonds

During the year ended 31 December 2008, 803,000,000 ordinary shares of HK$0.0005 each and 861,000,000 Consolidated Shares of HK$0.001 each were issued pursuant to the exercise of the conversion rights attaching to the Company's convertible bonds at a conversion price of HK$0.80 per share.

During the year ended 31 December 2009, 663,425,000 Consolidated Shares of HK$0.001 each were issued pursuant to the exercise of the conversion rights attaching to the Company's convertible bonds at a conversion price of HK$0.80 per share as detailed in note 30.

(vi) Repurchase of shares

An ordinary resolution was passed on 22 August 2007 to permit the repurchase of issued shares of the Company. The Company had repurchased 1,500,000 and 1,170,000 shares of HK$0.0005 each on 18 March 2008 and 20 March 2008 respectively on the Stock Exchange at a consideration of approximately HK$490,000. The cancellation of these shares subsequently completed on 9 April 2008.

24. SHARE-BASED PAYMENT TRANSACTIONS

During the year ended 31 December 2007, the Group terminated the share option scheme adopted on 19 February 2001 ("Old Scheme") and adopted a new share option scheme on 29 June 2007 ("New Scheme") for employee compensation.

The Old Scheme was terminated on 29 June 2007. No further share options would be granted under the Old Scheme but the Old Scheme would in all other respects remain in force to the extent necessary to give effect to the exercise of the outstanding options granted under it prior to its termination. No options under the Old Scheme were outstanding at 31 December 2008 and 2009.

The directors may at their absolute discretion, invite any person belonging to any of the following classes of participants ("Eligible Participants") to take up options to subscribe for shares:

- any employee (whether full time or part time, including any director) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which any member of the Group holds an equity interest (the persons are collectively referred to as "Eligible Employees");

- any directors (including non-executive directors and independent non-executive directors) of the Company, any subsidiary or any Invested Entity;

- any supplier of goods or services to any member of the Group or any Invested Entity;

- any customer of any member of the Group or any Invested Entity;

- any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;

- any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

- any adviser (professional or otherwise), consultant, individual or entity who in the opinion of the directors of the Company has contributed or will contribute to the growth and development of the Group;

- any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group; and

- for the purposes of the New Scheme, the offer may be made to any company wholly owned by one or more Eligible Participants.

24. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The share option scheme became effective on 2 July 2007 and, unless otherwise cancelled or amended, will remain in force for 10 years from its date of adoption on 29 June 2007.

Under the New Scheme, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the scheme and any other share option schemes adopted by the Group shall not exceed 30% of the share capital of the Company in issue from time to time. No options may be granted under the New Scheme or any other share option scheme adopted by the Group if the grant of such option will result in the limit being exceeded. Subject to the approval of the Company's shareholders, the aggregate number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company shall not exceed 30% of the Company's shares in issue from time to time.

The total number of shares which may be allotted and issued upon exercise of all options excluding, options which have lapsed in accordance with the terms of this scheme and any other option schemes of the Group must not in aggregate exceed 10% of the shares in issue as at the date of passing the relevant resolution adopting the scheme.

The total number of shares issued and which may fall to be issued upon exercise of the options and the options granted under any other share option scheme of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Where any further grant of options to a grantee under the scheme would result in the shares issued and to be issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the New Scheme and any other share option schemes of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such grantee and his associates abstaining from voting.

The maximum number of shares issued and to be issued upon exercise of the options granted under the share option scheme and any other share option schemes of the Company to each of any eligible persons (including those cancelled, exercised and outstanding options), in any twelve months period up to the date of the latest grant shall not exceed 1% of the Company's shares in issue provided that the number of shares issued and to be issued upon exercise of all options granted and to be granted to each of the independent non-executive directors or substantial shareholders of the Company or any of their respective associates in the twelve months period up to the date of such grant in excess of 0.1% of the Company's shares in issue and with a value in excess of HK$5 million must be approved in advance by the Company's independent shareholders. Any further grant of options in excess of such limit must be separately approved by shareholders in general meeting in accordance with the requirements of the GEM Listing Rules.

24. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The offer of a grant of share options might be accepted in writing within 21 days from the date of the offer. The exercise period of the share options granted is determinable by the directors, and should not be less than three years and not be later than ten years from the date of the offer of the share options or the expiry date of the New Scheme, if earlier.

The subscription price is equal to the higher of (i) the nominal value of the shares of the Company; (ii) the closing price per share of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant; and (iii) the average closing price per share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant.

The fair value of share options granted is recognised in the statement of comprehensive income taking into account the probability that the options will vest over the vesting period. Upon the exercise of the options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits/accumulated losses. Options which lapsed, if any, prior to their exercise date are deleted from the outstanding options.

All equity-settled share-based payments will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options.

The following share options were outstanding under the Old Scheme and New Scheme during the year:

	2009		2008	
	Number	**Weighted average exercise price**	Number*	Weighted average exercise price**
Outstanding at 1 January	**160,250,000**	**0.3074**	93,950,000	0.3278
Granted	**249,040,000**	**0.0878**	71,250,000	0.2656
Exercised	**(165,930,000)**	**0.0728**	(4,950,000)	0.0950
Outstanding at 31 December	**243,360,000**	**0.2425**	160,250,000	0.3074

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. Following the Share Consolidation with effect from 21 October 2008, the total number of share options outstanding and the exercise price of the share options outstanding had been adjusted accordingly.

** The weighted average exercise price was adjusted under Share Consolidation.

24. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.1788 (2008: HK$0.240).

There were 243,360,000 (2008: 160,250,000) share options exercisable as at 31 December 2009.

Details of specific categories of share options outstanding as at the end of the reporting periods are as follows:

2009

Option type	Number of options	Date of grant	Exercise period	Exercise price per share
2007(a)	48,000,000	9 July 2007	9 July 2007 to 29 June 2017	0.2850
2007(b)	41,000,000	22 August 2007	22 August 2007 to 29 June 2017	0.4060
2008	71,250,000	10 July 2008	10 July 2008 to 29 June 2017	0.2656
2009(c)	83,110,000	10 December 2009	10 December 2009 to 29 June 2017	0.1176
	243,360,000			

2008

Option type	Number of options*	Date of grant	Exercise period	Exercise price per share**
2007(a)	48,000,000	9 July 2007	9 July 2007 to 29 June 2017	0.2850
2007(b)	41,000,000	22 August 2007	22 August 2007 to 29 June 2017	0.4060
2008	71,250,000	10 July 2008	10 July 2008 to 29 June 2017	0.2656
	160,250,000			

* Taking into account the effect of Share Consolidation as if starting from 1 January 2008.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. Following the Share Consolidation with effect from 21 October 2008, the total number of share options outstanding and the exercise price of the share options outstanding had been adjusted accordingly.

Options granted are fully vested at the date of grant. In total, approximately HK$9,672,000 (2008: HK$5,068,000) of equity-settled share-based payments, comprising of nil (2008: HK$2,111,000) to directors, HK$1,184,000 (2008: HK$2,957,000) to employees and HK$8,488,000 (2008: Nil) to others has been included in the consolidated statement of comprehensive income for the year ended 31 December 2009, the corresponding amount of which has been credited to share option reserve (note 25). No liabilities were recognised on the equity-settled share-based payment transactions.

24. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The followings significant assumptions were used to derive the fair values of share options granted during the years ended 31 December 2009 and 2008 at the date of grant, using the Black-Scholes Option Pricing Model:

	2007(a)	2007(b)	2008	2009(a)	2009(b)	2009(c)
Date of grant	9 July 2007	22 August 2007	10 July 2008	4 February 2009	18 May 2009	10 December 2009
Grant date share price	0.2850	0.4050	0.2500	0.0430	0.0880	0.1150
Exercise price	0.2850	0.4060	0.2656	0.0430	0.0880	0.1176
Expected volatility	113.43%	111.57%	59.09% to 77.75%	122.542%	107.020%	107.072%
Expected exercise date	8 January 2008	21 February 2008	9 January 2009 to 9 July 2011	3 February 2010	17 November 2010	9 December 2010
Risk-free interest rate	3.89%	3.94%	1.350% to 2.727%	0.330%	0.302%	0.11%
Expected dividend yield	Nil	Nil	Nil	Nil	Nil	Nil

The expected volatility is based on the historical volatility of the Company's share price, adjusted for any expected changes to future volatility based on publicly available information. The expected life used in the model has been adjusted based on management's best estimate.

The weighted average fair value of share options granted during the year at the measurement date was HK$0.0388 (2008: HK$0.0711). All share options have been accounted for under HKFRS 2. The options outstanding at 31 December 2009 had weighted average exercise prices of HK$0.2425 (2008: HK$0.3074 (after Share Consolidation)) and a weighted average remaining contractual life of 7.5 years (2008: 8.5 years).

25. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 32 to 33 of the financial statements.

The capital redemption reserve of the Group represents the nominal value of the share capital of the Company repurchased and cancelled.

Other reserve represents the difference between the consideration paid for the additional interest in the subsidiary and the non-controlling interest's share of the assets and liabilities reflected in the consolidated statement of financial position at the date of the acquisition of the non-controlling interests.

Company

	Share premium account HK$'000 (Note (i))	Capital redemption reserve HK$'000 (Note (ii))	Convertible bond equity reserve HK$'000	Share option reserve HK$'000	Warrant reserve HK$'000 (Note (iii))	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2008	122,425	–	–	9,772	259	(126,673)	5,783
Loss for the year	–	–	–	–	–	(44,588)	(44,588)
Total comprehensive income for the year	–	–	–	–	–	(44,588)	(44,588)
Issuance of new shares, net of share issue expense	46,130	–	–	–	–	–	46,130
Recognition of equity-settled share-based payments	–	–	–	5,068	–	–	5,068
Proceeds from shares issued under share option scheme	650	–	–	(185)	–	–	465
Proceeds from shares issued upon exercise of warrants	29,377	–	–	–	(259)	–	29,118
Issuance of convertible bonds	–	–	333,772	–	–	–	333,772
Exercise of convertible bonds	808,342	–	(218,090)	–	–	–	590,252
Repurchase of shares	(490)	1	–	–	–	–	(489)
Balance at 31 December 2008	1,006,434	1	115,682	14,655	–	(171,261)	965,511

25. RESERVES (Continued)

Company (Continued)

	Share premium account HK$'000 (Note (i))	Capital redemption reserve HK$'000 (Note (ii))	Convertible bond equity reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000 (Note (iii))	Total HK$'000
Balance at 1 January 2009	1,006,434	1	115,682	14,655	(171,261)	965,511
Loss for the year	–	–	–	–	(294,528)	(294,528)
Total comprehensive income for the year	–	–	–	–	(294,528)	(294,528)
Recognition of equity-settled share-based payments	–	–	–	9,672	–	9,672
Proceeds from shares issued under share option scheme	17,761	–	–	(5,841)	–	11,920
Exercise of convertible bonds	451,162	–	(114,603)	–	–	336,559
Redemption of convertible bonds	–	–	(1,079)	–	256	(823)
Balance at 31 December 2009	**1,475,357**	**1**	**–**	**18,486**	**(465,533)**	**1,028,311**

Notes:

(i) The share premium account of the Group and Company arises on shares issued at a premium. In accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) 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 able to pay its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

(ii) The capital redemption reserve of the Company represents the nominal value of the share capital of the Company repurchased and cancelled.

25. RESERVES (Continued)

Company (Continued)

Notes: (Continued)

(iii) On 3 July 2007, the Company entered into two subscription agreements with two investors, namely Mr. Li Ming Han and Mr. Pan Chik for the issue of warrants. The Company issued 358,000,000 non-listed warrants at the issue price of HK$0.001 per warrant. The warrants will mature in three years from the date of issue. Each warrant entitles the holder thereof to subscribe for one new share at initial exercise price of HK$2.25 per new share, payable in cash and subject to adjustment, at any time from 3 July 2007 to 2 July 2010. Consideration of HK$358,000 was received in respect of warrants during the year 2007. After the share subdivision being effective on 23 August 2007, the exercise price per share was adjusted from HK$2.25 to HK$0.1125. Each warrant of the Company shall confer right to subscribe for 20 subdivided shares of HK$0.0005 each. On 23 October 2007, the Company issued subscription shares at a discount of more than 10% to the then prevailing market price of the shares of the Company which constitutes an event that gave rise to adjustments to the subscription price of the warrants. The subscription price of the warrants was adjusted from HK$0.1125 per share to HK$0.11 per share. On 11 December 2007, the holders of the warrants passed a special resolution to amend the warrant instrument so that any future issue of securities of the Company at a discount of more than 10% to the then prevailing market price of the shares of the Company will no longer trigger any adjustment to the exercise price of the warrants.

As at 31 December 2008, all warrants issued had been exercised.

26. OPERATING LEASE COMMITMENTS

Group

At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases are payable by the Group as follows:

	2009 **HK$'000**	2008 HK$'000
Within one year	**709**	21
After one year but within five years	**124**	39
	833	60

Operating leases relate to rented premises with lease terms of between 1 to 3 years, with no option to renew the lease terms at the expiry date. The lease does not include contingent rental.

Company

The Company had no significant operating lease commitments at 31 December 2009 and 2008.

27. CAPITAL COMMITMENTS

At 31 December 2009, the Group had the following commitments which were not provided for in the financial statements:

	2009 HK$'000	2008 HK$'000
Authorised and contracted for:		
Purchase of property, plant and equipment	**365**	–
Exploration work in the PRC (note)	**2,268**	2,240

Note: At 31 December 2009 and 2008, the Group had capital commitment in respect of the exploration work in the PRC. The contract sum was from approximately of RMB8 million to RMB9 million, but the actual amount paid was subject to the actual work performed. The Group had settled RMB7 million. The amount contracted but not provided for was RMB2 million, equivalent to HK$2.27 million (2008: RMB2 million, equivalent to HK$2.24 million).

The Company had no significant capital commitments at 31 December 2009 and 2008.

28. ACQUISITION OF SUBSIDIARIES AND BUSINESS COMBINATION

On 26 August 2008, the Group acquired 100% of the equity interest of China Nonferrous Metals and 100% interest of the shareholder's loan ("Mine Acquisition") for a consideration of approximately HK$1,338,228,000. The consideration was satisfied by 1) HK$81,000,000 in cash; 2) by issuing 433,150,000 new ordinary shares at HK$0.107 per share (equivalent to HK$46,347,000), being the fair value as at the issue date; and 3) by issuing of convertible bonds of HK$1,217,948,000, being the fair value as at the issue date, to Mr. Leung.

The Target Group did not contribute any revenue to the Group but contributed net loss of HK$648,000 to the Group for period from 26 August 2008 to 31 December 2008. Had the Mine Acquisition occurred on 1 January 2008, the Group's revenue and loss for the year ended 31 December 2008 would have been HK$1,266,000 and HK$51,221,000. The proforma information was for illustrative purposes only and was not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor were they intended to be a projection of future results.

Details of the net assets acquired and goodwill were as follows:

	HK$'000
Purchase consideration:	
– Cash paid	81,000
– Fair value of convertible bonds issued (note (i))	1,217,948
– Fair value of shares issued (note (i))	46,347
– Direct costs relating to the acquisition	5,715
Total purchase consideration	1,351,010
Acquisition of a shareholder's loan	(12,782)
	1,338,228
Fair value of net assets acquired	(204,228)
Goodwill (note (ii))	1,134,000

Notes:

(i) The fair value of the shares issued was based on the published share price available at the date of acquisition. The fair value of the convertible bonds issued was based on a valuation report from LCH. The basis for determining the fair value of the convertible bonds is detailed in note 30.

28. ACQUISITION OF SUBSIDIARIES AND BUSINESS COMBINATION (Continued)

Notes: (continued)

(ii) In the opinion of the directors, the goodwill arisen in the Mine Acquisition was mainly attributable to the consideration for the Mine Acquisition and had taken into account the followings:

– the continuous growth in the market price of gold in recent years and the future expectations of the gold price; and

– the expected return from the gold ore resources in the exploration area.

As the expectation of future gold price was not possible to be recognised separately as an intangible asset, it was therefore included in goodwill.

Based on the technical report which was included in the circular of the Company dated 13 May 2008, the exploration area has a preliminary estimate of up to 60 to 100 tons of contained gold. However, based on the exploration work done as at the date of acquisition, there was no sign of any ore located in the exploration area. In the opinion of the directors, after taken into consideration of the advice from the valuer, no value could be assigned to the potential gold resources. The management therefore considered it was not possible to assess the value of such estimation of gold resources and no intangible asset had been recognised separately in respect of the gold resources.

The identifiable assets and liabilities arising from the acquisition were as follows:

	Fair value HK$'000	**Carrying amount** HK$'000
Property, plant and equipment	239	239
Exploration and evaluation assets (note 19)	21,150	21,150
Prepayments, deposits and other receivables	4,549	4,549
Cash and bank balances	49	49
Other payables and accrued expenses	(946)	(946)
Amount due to a shareholder	(12,782)	(12,782)
Supply Contract (note 19)	287,020	–
Deferred tax liabilities (note 31)	(44,257)	–
Net assets	255,022	12,259
Non-controlling interests	(50,794)	
Net assets attributed to the Group acquired	204,228	
Cash and cash equivalents in subsidiaries acquired		49
Purchase consideration settled in cash		(81,000)
Direct costs relating to the acquisition		(5,715)
Net outflow		(86,666)

29. DISPOSAL OF A SUBSIDIARY

On 28 September 2009, the Group disposed of the entire interest and the intercompany loan of Jet Power Holdings Limited ("Jet Power"), a direct wholly-owned subsidiary of the Company, to Sino Prosper Coal Mining Investment Limited ("Sino Prosper") for a consideration of approximately HK$1,451,000. Mr. Leung Ngai Man has indirect interests in both Jet Power and Sino Prosper. The net assets of Jet Power attributable to the Group at the date of disposal were immaterial to the Group. The disposal was completed on 28 September 2009.

The Group's interests in net assets of the disposed subsidiary at the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	1,406
Gain on disposal of a subsidiary	45
Total	1,451
Satisfied by:	
Cash consideration	1,451

30. CONVERTIBLE BONDS – GROUP AND COMPANY

As part of the consideration for the Mine Acquisition, the Company issued a 5-years zero coupon convertible bonds with a principal amount of HK$1,546,000,000 (the "Convertible Bonds") at 100% of principal amount to Mr. Leung (the "Bondholder") on 26 August 2008 (the "Issue Date"). The fair value of the Convertible Bonds on Issue Date was HK$1,217,948,000.

At the option of the Bondholder, the Bondholder may convert the whole or part (in multiples of HK$100,000) of the principal amount of the Convertible Bonds into the conversion shares at the conversion price of HK$0.40 per share for the period commencing from the date of issue of the Convertible Bonds up to the close of business on the day falling 7 days prior to 25 August 2013 (the "Maturity Date") provided that no Convertible Bonds may be converted, to the extent that following such conversion, the bondholder and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in more than 29% of the entire issued shares.

30. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

The conversion shares would be issued at an initial conversion price of HK$0.40 per conversion share based on the nominal principal amount of the Convertible Bonds of HK$1,546,000,000, subject to adjustment upon the occurrence of a capitalisation issue, rights issue, subdivision or consolidation of shares and other dilutive events.

The Convertible Bonds were valued as at 26 August 2008 and 31 December 2008 by LCH.

The fair value of the liability component of the Convertible Bonds was calculated using discounted cash flow approach. The fair value of the equity component was calculated using Black-Scholes Option Pricing Model, on the Issue Date and was included in shareholders' equity in convertible bond equity reserve.

The fair value of the liability components of the Convertible Bonds was calculated using discounted cash flow approach with the major inputs used in the model as follows:

	31 December 2008	26 August 2008
Stock price	HK$0.058	HK$0.107
Risk free rate	1.14%	2.82%
Effective interest rate	20.55%	11.82%
Expected life	4.65 years	5 years
Expiration of the Convertible Bonds	25 August 2013	25 August 2013
Expected dividend yield	Nil	Nil

The assumptions was supported by the prices from observable market transactions and determined based on available observable market data.

On 20 October 2008, the shareholders approved the consolidation of every two shares in the issued and unissued share capital of the Company into one consolidated share of HK$0.001 each as detailed in note 23. Pursuant to the terms of the Convertible Bonds, the conversion price of the Convertible Bonds was adjusted accordingly. The new conversion price per share upon share consolidation was HK$0.80 each based on the nominal principal amount of the Convertible Bonds of HK$1,546,000,000.

30. CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

The Convertible Bonds recognised in the statement of financial position were calculated as follows:

	Liability component HK$'000	Equity component HK$'000	Total HK$'000
Net carrying amounts on initial recognition	884,176	333,772	1,217,948
Imputed interest expenses	26,488	–	26,488
Arising from exercise of Convertible Bonds	(591,514)	(218,090)	(809,604)
Net carrying amounts at 31 December 2008	319,150	115,682	434,832
Imputed interest expense	21,280	–	21,280
Redemption	(3,208)	(1,079)	(4,287)
Arising from exercise of Convertible Bonds	(337,222)	(114,603)	(451,825)
Net carrying amounts at 31 December 2009	–	–	–

During the year ended 31 December 2009, 663,425,000 (2008: 1,262,500,000) Consolidated Shares were issued upon exercise of Convertible Bonds as detailed in note 23 (v).

Imputed interest expenses of approximately HK$21,280,000 (2008: HK$26,488,000) has been recognised in the statement of comprehensive income in respect of the Convertible Bonds for the year ended 31 December 2009 and is calculated using the effective interest method by applying the effective interest rate of 11.82% per annum (2008: 11.82% per annum) to the liability component of the Convertible Bonds.

On 4 September 2009, the Company early redeemed 6,250,000 Convertible Bonds at a total consideration of HK$5,000,000 from Mr. Leung Ngai Man, pursuant to the terms and conditions of the Convertible Bonds. The difference between the redemption amount and the total carrying amounts of liability component and equity component amounting to approximately HK$969,000 has been charged to the consolidated statement of comprehensive income and amounting to approximately HK$256,000 has been charged to the reserves, respectively.

During the year ended 31 December 2009, all the remaining convertible bonds issued were exercised for shares of HK$0.001 each with an exercise price of HK$0.80 per Convertible Bonds.

At 31 December 2009, the carrying amount of the liability component at amortised cost was nil (2008: HK$319,150,000). The fair value of the liability component was nil (2008: HK$224,531,000).

31. DEFERRED TAXATION

The following are the major deferred tax liabilities balances recognised and movements thereon during the current and prior years:

Group

	Supply Contract HK$'000
At 1 January 2008	–
Acquisition of subsidiaries	44,257
At 31 December 2008	44,257
Credit to profit or loss	(44,257)
At 31 December 2009	–

Note: The deferred tax liability of HK$44,257,000 at 31 December 2008 arose from the fair value adjustments of the Supply Contract upon acquisition of subsidiaries (note 28).

At 31 December 2008 and 2009, no deferred tax liability has been provided as the Group did not have any significant temporary differences which give rise to a deferred tax liability.

At 31 December 2009, the Group had unutilised tax loss of approximately HK$4,778,000 (2008: HK$3,457,000) arising from subsidiaries operating outside Hong Kong which is available for setting off against future taxable profit of that subsidiary for 5 years and tax losses of approximately HK$52,984,000 (2008: HK$52,905,000) arising from certain subsidiaries operating in Hong Kong which can be carried forward indefinitely. No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profit streams.

32. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	**2009** **HK$'000**	2008 HK$'000
Interest expense paid to Sun Wah:			
– Former shareholder's loans	(i)	**–**	35
Company secretarial fee paid to Sun Wah	(ii)	**–**	40
Consideration for the Mine Acquisition	(iii)	**–**	1,351,010
Disposal of a subsidiary	(iv)	**1,451**	–
Redemption of the Convertible Bonds	(v)	**5,000**	–

Notes:

(i) Sun Wah Net Investment Limited ("Sun Wah") was one of the former substantial shareholders of the Company until 29 March 2007.

(ii) The Group paid Sun Wah for secretarial services provided to the Group. The amount was mutually agreed between Sun Wah and the Group.

(iii) Details of the Mine Acquisition is included in note 28.

(iv) Details of the disposal of a subsidiary is included in note 29.

(v) Details of the redemption is included in note 30.

(b) Compensation of key management personnel

Group

	2009 **HK$'000**	2008 HK$'000
Total remuneration of directors and other members of key management during the year	**3,940**	6,325

33. FINANCIAL INSTRUMENTS

33.1 Categories of financial instruments

Financial assets

	2009 HK$'000	2008 HK$'000
Loans and receivables:		
Trade receivables	**41**	114
Deposits and other receivables	**341**	1,159
Cash and bank balances (including pledged deposit)	**11,631**	1,095

Financial liabilities

	2009 HK$'000	2008 HK$'000
Financial liabilities at amortised cost:		
Other payables and accrued expenses	**1,851**	4,313
Convertible bonds	**–**	319,150

33.2 Financial risk management objectives and policies

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

Financial risk management is coordinated at the Group's headquarters, in close co-operation with the board of directors. The overall objectives in managing financial risks focus on securing the Group's short to medium term cash flows by minimising its exposure to financial markets. Long term financial investments are managed to generate lasting returns with acceptable risk levels.

It is not the Group's policy to actively engage in the trading of financial instruments for speculative purposes. The treasury department works under the policies approved by the board of directors. It identifies ways to access financial markets and monitors the Group's financial risk exposures. Regular reports are provided to the board of directors.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

33. FINANCIAL INSTRUMENTS (Continued)

33.2 Financial risk management objectives and policies (Continued)

32.2.1 Market risk

Foreign currency risk management

The Group's exposure to currency exchange rates is minimal as the group companies usually hold most of their financial assets/liabilities in their own functional currencies. Currently the Group does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk management

The Group does not have material exposure to interest rate risk. A reasonably possible change in interest rate in the twelve months is assessed; which could have immaterial change in the Group's loss after tax and accumulated losses. Changes in interest rates have no material impact on the Group's other components of equity. The Group adopts centralised treasury policies in cash and financial management and focuses on reducing the Group's overall interest expenses.

The directors are of the opinion that the Group's sensitivity to the change in interest rate is low.

Price risk

As the Group has no significant investments in financial assets at FVTPL or available-for-sale financial assets, the Group is not exposed to significant price risk.

33.2.2 Credit risk management

At 31 December 2009, the Group's maximum exposure to credit risk which will causes a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Details of the Group's credit risk are included in note 21.

33. FINANCIAL INSTRUMENTS (Continued)

33.2 Financial risk management objectives and policies (Continued)

33.2.3 Fair value of financial instruments

The fair value of the Group's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The fair values of the liability component of convertible bonds were disclosed in note 30.

33.2.4 Liquidity risk management

The Group's objective is to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Group finances its operations primarily with internal generated cash flow as well as the cash flow generated from the exercise of share options during the year.

At 31 December 2009 and 2008, the remaining contractual maturity of the Group's financial liabilities which are based on undiscounted cash flows are summaries below:

	On demand *HK$'000*	Within 1 year *HK$'000*	More than 1 year *HK$'000*	Total contractual undiscounted cash flows *HK$'000*	Total carrying amount *HK$'000*
At 31 December 2009					
Other payables and accrued expenses	–	1,851	–	1,851	1,851
At 31 December 2008					
Other payables and accrued expenses	–	4,313	–	4,313	4,313
Convertible bonds	–	–	535,740	535,740	319,150
	–	4,313	535,740	540,053	323,463

34. CAPITAL RISK MANAGEMENT

The Group's capital management objectives are:

– to ensure the Group's ability to continue as a going concern;

– to provide an adequate return to shareholders; and

– to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders and issue new shares to reduce its debt level.

Consistent with other industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings are calculated as current and non-current borrowings as shown in the consolidated statement of financial position and total capital is calculated as "total equity", as shown in the consolidated statement of financial position.

Gearing ratio

The gearing ratios at 31 December 2009 and 2008 were as follows:

	2009 **HK$'000**	2008 HK$'000
Total borrowings	**–**	319,150
Total equity	**1,034,982**	1,095,817
Gearing ratio	**N/A**	0.291

FINANCIAL SUMMARY

	For the year ended 31 December				
	2005	2006	2007	2008	**2009**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Revenue	630	964	2,609	1,266	**2,057**
Loss before income tax	(4,551)	(5,174)	(19,154)	(50,245)	**(458,514)**
Income tax credit	–	–	–	–	**44,244**
Loss for the year	(4,551)	(5,174)	(19,154)	(50,245)	**(414,270)**
Non-controlling interests	25	25	–	126	**48,758**
Loss per share for loss attributable to owners of the Company during the year	(4,526)	(5,149)	(19,154)	(50,119)	**(365,512)**

	At 31 December				
	2005	2006	2007	2008	**2009**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	2,266	907	94,183	1,463,537	**1,036,844**
Total liabilities	(21,399)	(25,195)	(4,760)	(367,720)	**(1,862)**
	(19,133)	(24,288)	89,423	1,095,817	**1,034,982**