CVM Minerals Limited
南亞礦業有限公司

(Incorporated in Hong Kong with limited liability)
Stock Code: 705

AR 10
Annual Report 2010

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Goh Sin Huat *(Executive Chairman)*
(appointed on 1 September 2010)
Mr. Chong Wee Chong
Mr. Lim Ooi Hong
Mr. Leung Wai Kwan
(appointed on 1 September 2010)

Independent Non-executive Directors

Ms. Wong Choi Kay
Mr. Chong Lee Chang
Mr. Lam Cheung Shu

COMPANY SECRETARY

Ms. Ma Sau Kuen Gloria

AUDIT COMMITTEE

Ms. Wong Choi Kay *(Chairperson)*
Mr. Chong Lee Chang
Mr. Lam Cheung Shu
(appointed on 1 September 2010)

REMUNERATION COMMITTEE

Mr. Goh Sin Huat *(Chairman)*
(appointed on 1 September 2010)
Mr. Chong Lee Chang
Ms. Wong Choi Kay

NOMINATION COMMITTEE

Mr. Goh Sin Huat *(Chairman)*
(appointed on 1 September 2010)
Mr. Chong Lee Chang
Ms. Wong Choi Kay

AUTHORISED REPRESENTATIVES

Mr. Leung Wai Kwan
Ms. Ma Sau Kuen Gloria

LEGAL ADVISERS

As to Hong Kong Law
P.C. Woo & Co.
Richards Butler
in association with Reed Smith LLP

As to Malaysian Law
Tan, Goh & Associates

INDEPENDENT AUDITOR

Baker Tilly Hong Kong Limited
Certified Public Accountants

PRINCIPAL BANKERS

Bank Kerjasama Rakyat Malaysia Berhad
Kuwait Finance House (Malaysia) Berhad
Public Bank Berhad
RHB Bank Berhad
HSBC Bank Malaysia Berhad
Standard Chartered Bank (Hong Kong) Limited

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

REGISTERED OFFICE

8th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

HEAD OFFICE AND PRINCIPAL OFFICE IN MALAYSIA

3rd Floor, Wisma Ho Wah Genting
No. 35, Jalan Maharajalela
50150 Kuala Lumpur
Malaysia

SMELTER ADDRESS IN MALAYSIA

Lot P.T. 14133, Kamunting Raya
Industrial Estate Phase III
Mukim Assam Kumbang
34000 Taiping
State of Perak
Malaysia

BRANCH OFFICE IN HONG KONG

Suite 5103A, 51st Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

STOCK CODE

705

LISTING DATE

22 December 2008

COMPANY WEBSITE

www.cvmminerals.com

FINANCIAL SUMMARY

For the Year Ended 31 December 2010

A five-year financial summary of the results and of the assets and liabilities of CVM Minerals Limited ("CVM" or the "Company") and its subsidiaries (collectively referred to as the "Group") is set out below. This summary does not form part of the audited financial statements.

	Year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Turnover	**8,497**	—	—	—	—
Cost of sales	**(16,339)**	—	—	—	—
Gross loss	**(7,842)**	—	—	—	—
Other revenue	**1,600**	2,163	25	—	—
Other net income/(loss)	**438**	3,931	(404)	(75)	—
Selling and distribution expenses	**(207)**	—	—	—	—
Administrative expenses	**(32,945)**	(20,109)	(9,151)	(2,583)	(1,551)
Finance costs	**(7,458)**	(78)	(968)	(24)	(13)
Loss before taxation	**(46,414)**	(14,093)	(10,498)	(2,682)	(1,564)
Taxation	**(4)**	(11)	—	—	—
Loss for the year	**(46,418)**	(14,104)	(10,498)	(2,682)	(1,564)
Attributable to:					
Equity holders of the Company	**(46,315)**	(14,104)	(10,498)	(2,682)	(1,564)
Non-controlling interests	**(103)**	—	—	—	—
Loss for the year	**(46,418)**	(14,104)	(10,498)	(2,682)	(1,564)
Loss per share (cents)					
Basic	**(2.13)**	(0.78)	(0.77)	(0.79)	(0.21)

	As at 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Total assets	**907,900**	492,567	285,945	143,233	81,880
Total liabilities	**(589,014)**	(373,176)	(153,577)	(75,483)	(15,876)
Net assets	**318,886**	119,391	132,368	67,750	66,004
Total equity	**318,886**	119,391	132,368	67,750	66,004

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "Board") of CVM and its subsidiaries, I am pleased to present the Annual Report and the financial statements of the Group for the financial year ended 31 December 2010.

GOH SIN HUAT
Executive Chairman

FINANCIAL PERFORMANCE

The Group registered an after tax loss of HK$46.4 million, which is a substantial increase of HK$32.3 million as compared to the previous financial year. The substantial increase in the Group's loss was mainly due to the start-up cost of the Group's wholly owned subsidiary, CVM Magnesium Sdn. Bhd. (formerly known as Commerce Venture Magnesium Sdn. Bhd. ("CVMSB") magnesium smelting plant (the "Smelter"), higher administrative expenses, finance costs incurred and more number of staff employed during the year under review. The Group continues to adopt a conservative approach towards its financial matters and human resources to ensure its future robust growth.

OPERATIONS REVIEW

The construction of the Smelter progressed very well and was completed in 2010 with the principal factory building fully completed and all major machinery components delivered to the site and substantially assembled. The various workshops namely magnesium deoxidisation, material calcinations, material glomeration and magnesium refining workshops together with the power distribution station were completed and tested. The external natural gas pipe lines were completed and finally connected to the Smelter's gas tanks at the end of January 2011. With this final component of the natural gas supply being installed, the Smelter will be able to step up its production capacity from February 2011.

CHAIRMAN'S STATEMENT

Management will also step up and review localisation of parts for the Smelter in order to save on imported replacement cost and expenses.

During the financial year 2010, we had managed to produce sample magnesium ingots during our trial runs while testing the machineries. The ingots produced were sent to our prospective customers for testing and acceptance. The test results from these customers were generally good. We had also managed to sell some of these products produced during our test runs. Our maiden revenue from these trial runs for the financial year was HK$8.5 million, which was satisfactory considering the various production constraints we faced.

PROSPECTS

The price trends of magnesium metal in the global market for the financial year 2010 ranges from US$2,700 to US$3,100 per metric ton for deliveries to markets outside the United States of America ("USA"). Prices of magnesium metal for deliveries to USA range from US$4,500 to US$6,000 per metric ton. We anticipate these prices to be stable with an upward bias for the next financial year in view of the recovering world economy.

We remain optimistic on the long-term prospects of the magnesium industry. The global magnesium market fundamentals have shown improvements and we believe that we will be positively rewarded when our production at the Smelter is progressively rammed up.

The Board of Directors also took cognizance of the need to strengthen the Group's balance sheet, diversify the Group's reliance on just one mineral and to maintain a sound gearing level through strategic corporate exercises. In this direction, the Company had in November 2010 acquired interests in two Indonesian companies involved in exploring iron ore, coal and manganese.

The Company will continuously explore profitable ventures to invest in order to diversify the Group's earnings and enhance the Group's future prospect.

CORPORATE GOVERNANCE

The Board is committed towards high standards of corporate governance to safeguard the interests of shareholders and stakeholders. The Corporate Governance Report included in this Annual Report describes how the Company applies the principles of corporate governance in compliance with the code provisions of the Code on Corporate Governance Practices in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Stock Exchange").

CHAIRMAN'S STATEMENT

INTERNAL CONTROL

The Board has overall responsibility for the Group's internal control and risk management systems and for reviewing their effectiveness. These procedures aimed to safeguard assets and ensure proper accounting records are maintained so that the financial information pertaining to the business and for publication are transparent and reliable. The risk management procedures are designed to manage key vulnerabilities. However, they cannot eliminate all the commercial risks and guarantee that there will be no shortfall in achieving the business objectives.

Risk in today's world moreover is multifaceted. We are pleased to report that the Group has instituted an ongoing process for identifying, evaluating and managing the significant risks endemic to our industry. The internal control system in this Annual Report reports on the process in place and is regularly reviewed by the Board and Board Committees.

APPRECIATION AND ACKNOWLEDGEMENT

On behalf of the Board, I would like to extend a special note of thanks to Mr. Tony Tan and Mr. Gao Qi Fu, who resigned from the Board on 1 September 2010, for their wise counsel and invaluable contributions throughout their time as the Independent Non-executive Chairman and Executive Director respectively. Mr. Gao continues to be a technical advisor to the Company advising us on the magnesium industry.

I would also like to thank Mr. Chong Wee Chong who resigned as the Chief Executive Officer and Authorised Representative of the Company on 1 September 2010. Mr. Chong, however, remains as an Executive Director of the Company.

I would like to welcome Mr. Leung Wai Kwan, who joined the Board on 1 September 2010 as an Executive Director and Authorised Representative of the Company. Mr. Leung was previously the Vice President, Business Development of the Company.

CHAIRMAN'S STATEMENT

I too joined the Board as the Executive Chairman on 1 September 2010.

I would also like to take this opportunity to thank the shareholders for their continuous support and loyalty, as well as the management and the staff for their commitment, dedication and perseverance towards ensuring the success of the Group. My heartfelt gratitude also goes to our customers, suppliers, bankers, business associates, all our stakeholders and the various relevant authorities for their cooperation and continued support. Finally, I would also like to record my appreciation to my colleagues on the Board for their invaluable contribution throughout the year.

Thank you.

On behalf of the Board of Directors of CVM

GOH SIN HUAT
Executive Chairman

Kuala Lumpur, Malaysia, 23 February 2011

MANAGEMENT DISCUSSION AND ANALYSIS

The Company, via its wholly owned subsidiary, CVMSB, operates in the State of Perak, Malaysia and is the first primary magnesium producer in South East Asia. CVMSB has accelerated the scale of mining and extraction of dolomite at the Dolomite Hills for stock piling purposes since June 2009.

CVMSB has mining rights of 20 years for extracting dolomite limestone from two dolomite hills in Malaysia, with the option to renew for a further period of 10 years. Total dolomite reserve is estimated at approximately 20,005,480 tonnes, sufficient for supporting the manufacturing of magnesium ingots at an annual production capacity of 15,000 tonnes for approximately 116 years.

BUSINESS REVIEW

The Perak Magnesium Smelter

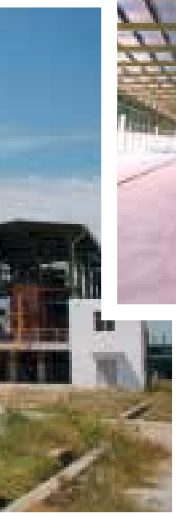
Construction and installation works at the Group's Smelter in the State of Perak, Malaysia have been completed in June 2010. Details of the latest update on the Smelter are set out in the announcement dated 17 June 2010 of the Company.

Further to that, the Board noted that the Smelter has entered into the production stage of producing magnesium ingots.

Financing of the Group

In order to finance the construction of the Smelter, CVMSB obtained banking facilities totalling RM175.0 million (equivalent to HK$441.5 million), which comprises a banking facility amounting to RM114.6 million (equivalent to HK$289.1 million) from Kuwait Finance House (Malaysia) Berhad ("KFHMB") and term loan

MANAGEMENT DISCUSSION AND ANALYSIS



facilities amounting to RM60.4 million (equivalent to HK$152.4 million) from Bank Kerjasama Rakyat Malaysia Berhad ("Bank Rakyat"). The banking facility provided by KFHMB is guaranteed by Bank Rakyat and is convertible into a term loan facility of RM117.8 million (equivalent to HK$297.2 million), offered by Bank Rakyat, with a ten-year term from the conversion date.

Up to 31 December 2010, CVMSB has drawn down RM99.6 million (equivalent to HK$251.3 million) (2009: RM99.6 million (equivalent to HK$225.4 million)) and RM60.4 million (equivalent to HK$152.4 million) (2009: RM55.5 million (equivalent to HK$125.6 million)) from KFHMB and Bank Rakyat respectively. Unutilised banking facilities amounted to a total of RM15.0 million (equivalent to HK$37.8 million) (2009: RM17.5 million (equivalent to HK$39.6 million)) as at 31 December 2010.

On 24 January 2011, the balance of the KFHMB banking facility of RM15.0 million (equivalent to HK$37.8 million) was drawn down. The aggregate value of short term bank loan from KFHMB of RM115.0 million (equivalent to HK$290.1 million) and accrued bank guarantee commission of RM2.8 million (equivalent to HK$7.1 million) was fully converted into a ten-year term loan of RM117.8 million (equivalent to HK$297.2 million) provided by Bank Rakyat on 2 February 2011.

In accordance with the restructured bank loan agreements of 5 July 2010, the Group is required to repay the bank loans by monthly instalment of RM743,065 (equivalent to HK$1,874,628) commencing on or before 31 January 2011 and increasing to RM2,190,758 (equivalent to HK$5,526,914) commencing on or before 2 March 2011 to Bank Rakyat for the next 10 years.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital raising exercise

On 1 February 2010, the Company entered into a placing and subscription agreement with three existing shareholders, namely Ho Wah Genting Berhad, Tsorng Shin Machinery (M) Sdn. Bhd. and Zhen Development Sdn. Bhd. (the "Placing Vendors"), Cinda International Capital Limited ("Cinda") and Athens Capital Limited (the "Placing Agents"), pursuant to which, (i) the Placing Agents have agreed, as placing agents of the Placing Vendors and on a best effort basis, to procure independent third party placees to purchase up to 280,000,000 existing ordinary shares held by the Placing Vendors at the price of HK$0.36 per share (the "Top-up Placing"); and (ii) the Company has agreed to allot and issue, and the Placing Vendors have agreed to subscribe for their proportionate share of up to 280,000,000 new ordinary shares, at the price of HK$0.36 per share (the "Subscription").

On the same date, the Company entered into a placing agreement with the Placing Agents pursuant to which the Placing Agents have agreed, as the placing agents of the Company and on a best effort basis, to procure placees to subscribe for up to 80,000,000 new ordinary shares at the price of HK$0.36 per share (the "New Placing").

The Top-up Placing, the Subscription and the New Placing were completed on 10 February 2010 (collectively defined as the "Share Placing"). The gross proceeds and the net proceeds (after deducting the placing commission and relevant expenses) from the Share Placing amounted to HK$129.6 million and HK$126.0 million respectively.

Please refer to the Company's announcement dated 10 February 2010 for further details.

On 20 August 2010, the Company entered into a conditional placing agreement with Cinda, pursuant to which Cinda has conditionally agreed, as a placing agent of the Company and on a best effort basis, to procure placees who are independent third parties to subscribe for convertible bonds to be issued by the Company with an aggregate principal amount of HK$116.0 million (the "Convertible Bond Placing").

The convertible bonds bear interest at 15% per annum, maturing on the thirteenth month after the date of issue and are convertible into shares at the initial conversion price of HK$0.27 each.

The net proceeds from the Convertible Bond Placing raised was approximately HK$114.1 million and are intended to be used for the general working capital of the Group's proposed project in Indonesia as well as future corporate and acquisition exercises. Upon full conversion of the maximum principal amount of the convertible bonds of HK$116.0 million, 429,629,628 conversion shares will be issued, representing approximately 19.85% of the issued share capital of the Company as at the date of the convertible bond placing agreement and approximately 14.56% of the issued share capital of the Company as enlarged by the issue of the conversion shares.

Please refer to the Company's announcement dated 20 August 2010 for further details.

MANAGEMENT DISCUSSION AND ANALYSIS

Further capital raising exercise subsequent to financial year end

On 28 January 2011, the Company entered into a conditional share placing agreement with UOB Kay Hian (Hong Kong) Limited ("UOB Kay Hian") pursuant to which UOB Kay Hian agreed to place up to 340,000,000 new shares at the price of HK$0.228 per share. The Company also entered into a conditional warrant placing agreement with UOB Kay Hian pursuant to which UOB Kay Hian agreed to place 163,900,000 warrants at the price of HK$0.005 per warrant, which has conferred rights to subscribe for 163,900,000 new shares at the warrant exercise price of HK$0.27 per share.

Kindly refer to more details stated in Note 2(b)(ii) to the consolidated financial statements.

Outstanding licences, approvals and permits

CVMSB has obtained all major/material licences, approvals, permits, certificates of fitness for all machineries and the relevant employment visas and permits for the foreigners/foreign workers to be employed in relation to the operation of the Smelter.

OUTLOOK

As the Smelter enters the next stage of its evolution, increased marketing efforts are also being made to expand our range of customers in different regions to ensure a diversified mix of customers.

We envisage that as the Smelter achieves optimum commercial levels of production, the Group will be rewarded with increased revenue and better gross margins.

In the meantime, the Group is always on the look-out for new ventures in the mining and resource based industry for its long term growth plans. The following are the updates of several proposals which the Company had proposed and had successfully completed:

Manganese Ore

On 29 June 2009, the Company signed a memorandum of understanding (the "Manganese Ore MOU") with PT Finico Putra Anugerah, a company established under the laws of Indonesia which is engaged in exploration activities, in relation to a possible joint venture to participate in a project to explore and mine manganese ore and other related activities thereto in Indonesia. There is no material development on the Manganese Ore MOU since the relevant licence to explore and mine manganese is still pending approval from the relevant authorities.

Coal, iron ore and manganese

On 30 July 2010, the Company entered into a conditional Sale and Purchase Agreement to purchase the entire issued share capital of CVM International Limited (formerly known as Winner Top International Limited) ("CVM International"), a private investment holding company incorporated in the British Virgin Islands, for an aggregate consideration of HK$120.0 million to be satisfied (i) as to HK$96.0 million by allotment and issue of new ordinary shares of HK$0.025 each in the capital of the Company at HK$0.27 per consideration share; and (ii) as to HK$24.0 million in cash. Upon completion of the acquisition, CVM International is now the holding company of two (2) Indonesian companies holding certain mining concessions for coal, iron ore and manganese exploration in Aceh, Indonesia. The acquisition was successfully completed on 8 November 2010 by the issuance of 355,555,556 shares of the Company.

Please refer to the Company's announcement dated 30 July 2010, 25 August 2010 and 8 November 2010 for further details.

Acquisition of a subsidiary

On 23 February 2011, an agreement (the "Agreement") was entered into between the Company, Mr. Teoh Tek Siong and United Fortune Enterprises Limited (the "Vendors"), pursuant to which the Company has conditionally agreed to purchase and the Vendors have conditionally agreed to sell the 51% of entire issued share capital of Step Pacific Development Limited ("Step Pacific") for the consideration of HK$220,000,000, which shall be satisfied by the payment of deposit in sum of HK$11,000,000 to the Vendors upon signing the Agreement and by the issue of an aggregate of 653,125,000 ordinary shares to the Vendors.

Step Pacific is a company incorporated in the British Virgin Islands with limited liability, whose principal business activity is investment holding. Step Pacific holds 100% equity interest of Stabil Megamas Sdn. Bhd. ("Stabil Megamas"), which in turn holds 75% of the issued share capital of PT. Laksbang Mediatama ("PT. LM"). PT. LM is the holder of an exploration mining permit for the exploration of manganese in Indonesia for a period of 1 year from 6 March 2010.

Please refer to the Company's announcement date 23 February 2011 for further details.

FINANCIAL REVIEW

Turnover and other revenue

The Group's turnover on selling magnesium ingots for the year ended 31 December 2010 was HK$8,497,324 after completion of the Smelter in June 2010. The Group received interest income of HK$276,326 from money deposited with approved financial institutions in Malaysia and office space rental income of HK$13,475 for the year ended 31 December 2010. In addition, the Group is also entitled to receive HK$908,770 of government grant from the Malaysian Industrial Development Authority for training of its Malaysian workers in 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

The administrative expenses increased by 64% to approximately HK$32.9 million in 2010 from approximately HK$20.1 million in 2009. This was mainly due to the increase in other operating expenses, office expenses and travelling cost incurred by the Group in view of higher volume of activities at the Smelter and more corporate exercises conducted during the year.

Other operating expenses and office expenses increased to approximately HK$3.1 million and approximately HK$2.6 million respectively for the year ended 31 December 2010 from HK$1.5 million and HK$1.1 million respectively in 2009, mainly due to the increase in business activities associated with the operation of CVMSB and the Company.

Travelling cost increased by approximately 177% to approximately HK$2.3 million for the year ended 31 December 2010 from approximately HK$0.8 million in 2009 mainly due to the increase in business activities.

Exploration, development and mining production activities

Geological exploration

As at 31 December 2010, the Group has a total of 4 exploration rights, covering an area of 25,035 hectares, namely two exploration rights for coal covering an area of 19,825 hectares, one exploration right for iron ore covering an area of 1,500 hectares and one exploration right for manganese covering an area of 3,710 hectares, all of them in Aceh Province, Indonesia.

During the year, the Group's geological exploration expenditure amounted to approximately HK$1.2 million (2009:HK$Nil) incurred on general geological survey for the above rights.

Mining of dolomite

As at 31 December 2010, the Group completed an accumulated dolomite output of 13,064 tonnes (2009: 3,392 tonnes).

The expenditure incurred on dolomite mining production activities for the year ended 31 December 2010 was approximately HK$1.68 million (2009: HK$0.67 million). There were no mining production activities carried out for iron ore, coal and manganese as the Company had only acquired the subsidiaries on 8 November 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

The estimated reserves of the minerals for the year ended 31 December 2010 are as below:

Minerals	Total estimated reserves (Tonnes)	Minerals mined (Tonnes)	Balance estimated reserves (Tonnes)
Dolomite	20,005,480	13,064	19,992,416
Iron ore	9,328,800	—	9,328,800
Coal*	—	—	—
Manganese*	—	—	—

* Coal and manganese reserves are not determined yet as the relevant exploration work is still being undertaken.

Net foreign exchange gains

The net gains of approximately HK$0.4 million on foreign exchange was mainly due to the net impact of unrealised gain on money deposited by the Group with approved financial institutions in Malaysia.

Going forward, the Group will be exposed to foreign currency risk primarily through exposures in sales and purchases that are denominated in foreign currencies which fluctuate against Ringgit Malaysia, CVMSB's functional currency. During 2010, the Group did not use any financial instruments for any hedging purposes.

Finance costs

The Group's finance costs mainly consisted of interest of approximately HK$6.2 million for convertible bonds issued by the Company and interest on bank loans of approximately HK$1.3 million incurred by CVMSB.

Loss before taxation

As CVMSB has just started commencing revenue earning operations during the year under review, the Group incurred a consolidated loss before taxation of approximately HK$46.4 million for the year ended 31 December 2010 (2009: HK$14.1 million).

Loss per share

The loss per share increased in 2010 from 2009 as the loss attributable to ordinary equity holders increased substantially by approximately HK$32.2 million due to gross loss incurred from start up operation of the Smelter, higher administrative expenses and finance costs.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

Net current liabilities of the Group stood at approximately HK$456.5 million as at 31 December 2010. Included in current liabilities were bank loans and finance lease creditors of approximately HK$400.8 million and convertible bonds of approximately HK$121.8 million which are payable within one year. The amount due to KFHMB was fully settled on 2 February 2011 when the bank guarantee issued by Bank Rakyat to KFHMB was converted into term loan financing facility. The borrowings from KFHMB and Bank Rakyat (the "Banks") bear an interest rate of 8.3% per annum as at 31 December 2010 based on floating rate of the Banks' base financing rate plus 2%. The Group had a gearing ratio of approximately 1.64 (which is calculated on the basis of total bank borrowings and convertible bonds over shareholders' funds of the Group) as at 31 December 2010. The gearing ratio was approximately 3.00 as at 31 December 2009.

The Group's bank and cash balances as at 31 December 2010 were approximately HK$44.04 million. The Group's prepayments, deposits and other receivables of approximately HK$65.57 million are expected to be recovered within one year.

Capital expenditure

The carrying value of fixed assets of the Group for the purpose of the Smelter as at 31 December 2010 had increased by 37% to approximately HK$650.7 million from approximately HK$474.3 million as at 31 December 2009. Approximately 99.6% of the capital expenditure was incurred for the Smelter.

Charge on assets

The bank loans were granted to CVMSB and secured by way of:

(i) first party first legal charge over the land and factory building to be erected thereon held by CVMSB;

(ii) assignment of all off take proceeds of the customer;

(iii) debenture creating fixed and floating legal charge over all present and future assets of CVMSB excluding the performance bonds;

(iv) assignment of all CVMSB's rights, entitlement and interest in and to all building contracts, design drawings and other contracts pertaining to the magnesium ingot producing project (the "Project");

(v) assignment of all rights, benefits and interest under insurance undertaken by CVMSB as part of its operations for the Project;

(vi) assignment over the existing revenue accounts maintained at bank and monies standing to the credit of the revenue account in favour of the bank, the revenue account shall be operated solely by the bank;

(vii) a first fixed charge/assignment over the retorts of CVMSB;

(viii) assignment over the insurance policies of the retorts of CVMSB; and

(ix) any other securities as may be advised by the appointed legal counsel.

Human resources

As at 31 December 2010, the Group had a total of approximately 171 employees (2009: 98 employees). Total staff costs (including Directors' emoluments) for the year ended 31 December 2010 were approximately HK$14.9 million (2009: HK$5.2 million), representing 30% of the Group's total cost of sales and administrative expenses. Employees were remunerated based on their performance, experience and industry practice. Bonuses (if paid) are rewarded based on individual staff performance and in accordance with the Group's overall remuneration policies. The Group's management reviewed the remuneration policies and packages on a regular basis.

Capital commitments and contingent liabilities

In relation to the Smelter, as at 31 December 2010, the Group had a total capital commitment of approximately HK$25.0 million (2009: HK$31.8 million).

As at 31 December 2010, the Company has issued a corporate guarantee totalling approximately RM300.2 million (equivalent to approximately HK$757.4 million) to banks in respect of bank loan facilities granted to CVMSB.

The Directors do not consider it probable that a claim will be made against the Company under the corporate guarantee. The maximum liability of the Company as at 31 December 2010 under the corporate guarantee issued was the outstanding amount of the bank loan facilities drawn down by CVMSB, being approximately RM160.0 million (equivalent to HK$403.7 million) (2009: RM155.1 million (equivalent to HK$350.9 million)).

In addition, as at 31 December 2010, the Company has issued a corporate guarantee totalling approximately RM0.85 million (equivalent to HK$2.1 million) (2009: RM0.85 million (equivalent to HK$1.9 million)) to a supplier in respect of the purchase of liquefied petroleum gas made by CVMSB.

As at 31 December 2010, the Company has provided corporate guarantee totalling RM1,489,460 (equivalent to HK$3,757,657) (2009: HK$Nil) for finance lease creditors in respect of the purchase of motor vehicles and furniture and fittings by CVMSB.

The Company has not recognised any deferred income in respect of the corporate guarantees as their fair value cannot be reliably measured and its transaction price was HK$Nil.

CORPORATE GOVERNANCE REPORT

The Company is committed to enhancing corporate governance and transparency of the Group by applying the principles in the code provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company has complied with the code provisions in the Code during the year ended 31 December 2010 save for disclosed in the following relevant paragraph of this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of practice for carrying out securities transactions by the Directors. After specific enquiry with all members of the Board, the Company confirmed that all Directors have fully complied with the relevant standards stipulated in the Model Code during the year ended 31 December 2010.

BOARD OF DIRECTORS

The Board currently comprises seven Directors, four of whom are Executive Directors and three are Independent Non-executive Directors.

Composition of the Board:

Executive Directors:

Name	Other positions in the Company
Mr. Goh Sin Huat	Executive Chairman Chairman of the Remuneration Committee Chairman of the Nomination Committee
Mr. Chong Wee Chong	—
Mr. Lim Ooi Hong	—
Mr. Leung Wai Kwan	—

Independent Non-executive Directors:

Name	Other positions in the Company
Ms. Wong Choi Kay	Chairperson of the Audit Committee Member of the Remuneration Committee Member of the Nomination Committee
Mr. Chong Lee Chang	Member of the Audit Committee Member of the Remuneration Committee Member of the Nomination Committee
Mr. Lam Cheung Shu	Member of the Audit Committee

CORPORATE GOVERNANCE REPORT

Responsibilities of the Board:

The Board is responsible for the leadership and control of the Company. The Board determines the overall strategies, monitors and controls operating and financial performance, sets objectives and business development plans and makes key decisions of the Company. The day-to-day management and operation are delegated to the Executive Directors and the senior management. The delegated functions are closely supervised by the Board to ensure effectiveness and compliance with the Company's overall strategies.

For the year ended 31 December 2010, the Company had held eleven Board meetings and the attendance records are set out below:

Name	Meeting attendance/ Number of meetings held
Mr. Goh Sin Huat *(Executive Chairman)* (appointed on 1 September 2010)	3/3
Mr. Chong Wee Chong	11/11
Mr. Lim Ooi Hong	11/11
Mr. Leung Wai Kwan (appointed on 1 September 2010)	2/3
Ms. Wong Choi Kay	10/11
Mr. Chong Lee Chang	9/11
Mr. Lam Cheung Shu	11/11
Mr. Tony Tan (resigned on 1 September 2010)	8/8
Mr. Gao Qi Fu (resigned on 1 September 2010)	2/8

There are no financial, business, family or other material relationships among members of the Board except for Mr. Goh Sin Huat, the Executive Chairman, is related to Mr. Lim Ooi Hong, an Executive Director, being the father-in-law to Mr. Lim's sister.

Independence of the Independent Non-executive Directors:

The Company has received confirmation from each of the Independent Non-executive Directors regarding his/her independence pursuant to the requirements of Rule 3.13 of the Listing Rules. Based on these confirmations, the Board considers each of the Independent Non-executive Directors to be independent.

Terms of Non-executive Directors:

According to the Articles of Association of the Company (the "Articles of Association"), the Independent Non-executive Directors shall retire and will be eligible for re-election at the annual general meetings of the Company at least once every three years.

Board Committees:

Various Board Committees have been set up to assist the Board to manage the overall strategies of the Company. These include the Remuneration Committee, the Nomination Committee and the Audit Committee.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the code provision A.2.1 of the Code, the roles of the Chairman and Chief Executive Officer should be separate and performed by different individuals.

The Chairman of the Board, Mr. Goh Sin Huat, is responsible for chairing the Board's meetings and concentrating his efforts on developing the commercialization of the Group's Smelter operations in Perak, Malaysia, as well as taking the lead on the Group's general strategic direction. The day-to-day management and execution of the Company's strategies are managed by a committee of senior management staff headed by the Group President who are under the leadership of Mr. Goh.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members namely, Mr. Goh Sin Huat (Executive Chairman), Ms. Wong Choi Kay (Independent Non-executive Director) and Mr. Chong Lee Chang (Independent Non-executive Director). Mr. Goh acts as the chairman of the Remuneration Committee.

The role and function of the Remuneration Committee are set out in its terms of reference. Primary terms include recommendations to the Board on policy and structure of remuneration of the Directors and senior management, determination of the remuneration packages of each Director and member of the senior management, ensuring that no Directors or any of their associates are involved in deciding their own remuneration packages and review and approval of performance-based remuneration by reference to corporate goals and objectives and compensation arrangements relating to dismissal or removal of Directors. The remuneration package of each Director is determined by reference to the prevailing market conditions, his duties and responsibilities in the Company and the Company's remuneration policy.

During the year ended 31 December 2010, the Remuneration Committee held four Remuneration Committee meetings and the attendance record is set out below:

Name	Meeting attendance/ Number of meetings held
Mr. Goh Sin Huat *(Chairman)* (appointed on 1 September 2010)	0/0
Ms. Wong Choi Kay	4/4
Mr. Chong Lee Chang	1/4
Mr. Tony Tan (resigned on 1 September 2010)	4/4
Mr. Chong Wee Chong (resigned on 1 September 2010)	3/4

The Remuneration Committee had reviewed the remuneration of the Board during the year ended 31 December 2010, and, having taken into consideration of the current situation of the economy and the results of the Group had recommended to the Board that appropriate adjustments be made to the remuneration of the Board and no bonus was declared.

NOMINATION COMMITTEE

The Nomination Committee comprises three members namely, Mr. Goh Sin Huat (Executive Chairman), Ms. Wong Choi Kay (Independent Non-executive Director) and Mr. Chong Lee Chang (Independent Non-executive Director). Mr. Goh acts as the chairman of the Nomination Committee.

The role and function of the Nomination Committee are set out in its terms of reference. Primary terms include review and supervision of the structure, size and composition of the Board, developing the criteria for identifying and assessing the qualification of and evaluating candidates for directorship, making recommendations to the Board on the selection of nominated directorship and matters related to appointment or re-appointment of Directors.

The existing Executive Directors were nominated through the selection and identification from staff who are experienced in the mining industry, while the Independent Non-executive Directors were chosen from those who are eligible as being appointed as Independent Directors with the requisite experience and qualifications.

Pursuant to the Articles of Association, all Directors appointed to fill a casual vacancy should be subject to re-election by the shareholders of the Company (the "Shareholders") at the forthcoming general meeting of the Company after their appointment, but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. In addition, at each annual general meeting of the Company, one-third of the Directors shall retire from office by rotation (but will be eligible for re-election) such that all Directors should be subject to retirement by rotation at least once every three years.

Ms. Wong Choi Kay (Independent Non-executive Director), Mr. Chong Lee Chang (Independent Non-executive Director) and Mr. Lam Cheung Shu (Independent Non-executive Director) shall retire by rotation, and being eligible, have offered themselves for re-election at the forthcoming annual general meeting pursuant to the Articles of Association and the Code.

The Nomination Committee follows a set of procedures when recommending candidates for the directorship. The primary criteria of selecting a candidate include accessing the:

– integrity, objectivity, and intelligence of the person, with reputations for sound judgment and open minds, and a demonstrated capacity for thoughtful group decision-making;

– qualification and career experience; and

– understanding of the Company and its Group mission.

When a candidate is proposed for a directorship, he or she shall be evaluated on the basis of the criteria set out in the procedures mentioned above. Selection of the suitable candidate is based on a majority vote. Each committee member will be asked to express his or her view before voting. After the voting, the chairman will present the proposal of the Nomination Committee to the Board.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2010, the Nomination Committee had held two Nomination Committee meetings. The attendance record is set out below:

Name	Meeting attendance/ Number of meetings held
Mr. Goh Sin Huat *(Chairman)* (appointed on 1 September 2010)	0/0
Ms. Wong Choi Kay	2/2
Mr. Chong Lee Chang	0/2
Mr. Tony Tan (resigned on 1 September 2010)	2/2
Mr. Chong Wee Chong (resigned on 1 September 2010)	1/2

During the year under review, the Nomination Committee had considered and recommended the appointment of Mr. Goh Sin Huat as the Chairman of the Nomination Committee and Remuneration Committee and Mr. Lam Cheung Shu as an Audit Committee member to the Board for approval.

AUDIT COMMITTEE

The Audit Committee comprises three members namely, Ms. Wong Choi Kay (Independent Non-executive Director), Mr. Chong Lee Chang (Independent Non-executive Director) and Mr. Lam Cheung Shu (Independent Non-executive Director). Ms. Wong acts as the Chairperson of the Audit Committee.

The role and function of the Audit Committee are set out in its terms of reference. Primary terms include:

On external audit:

- make recommendations to the Board on appointment, re-appointment and removal of the external auditor and approve the remuneration and terms of engagement of the external auditor;
- review and monitor the external auditor's independence as well as the objectives and effectiveness of the audit process in accordance with applicable standards;
- discuss with the external auditor before the audit commences, the nature and scope of the audit and reporting obligations and ensure co-ordination where more than one audit firm is involved; and
- develop and implement policy on the engagement of the external auditor to provide non-audit services.

On annual financial results:

- monitor integrity of the interim and annual financial statements and interim and annual reports and accounts, and review significant financial reporting judgments contained therein before submission to the Board;
- review the Group's financial and accounting policies and practices;
- review external auditor's management letter, any material queries raised by the auditor to the management in respect of accounting records, financial accounts or system of control and management response; and

- consider any significant or unusual items that are, or may need to be, reflected in the interim and annual reports and accounts and give due consideration to any matters that have been raised by the Group.

On internal control and risk management:

- review the Group's financial controls and its internal control and risk management system;
- discuss with management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and its training programmes and budget;
- consider any findings of major investigation of internal control matters as delegated by the Board or on its own initiative and management's responses thereto;
- ensure co-ordination between the internal and external auditors and that the internal audit function is adequately resourced and has appropriate standing within the Group; and
- report to the Board on the matters raised in the Code.

During the year ended 31 December 2010, the Audit Committee had held five Audit Committee meetings and the attendance records are set out below:

Name	Meeting attendance/ Number of meetings held
Ms. Wong Choi Kay *(Chairperson)*	5/5
Mr. Chong Lee Chang	2/5
Mr. Lam Cheung Shu (appointed on 1 September 2010)	1/1
Mr. Tony Tan (resigned on 1 September 2010)	4/4

The Audit Committee had considered, reviewed and/or discussed:

1. the auditing and financial reporting matters;
2. the qualified accountant's role based on the latest Listing Rules amendments of the Stock Exchange;
3. the quarterly, interim and annual financial results;
4. the report on the Group's internal controls and risk management prepared by independent professional parties;
5. matters relating to the completion schedule and costs related to the construction of the Smelter;
6. the appointment of an independent internal auditor including the terms of engagement; and
7. the appointment of an independent Hong Kong tax services consultant.

In addition, the Audit Committee had reviewed, discussed and approved the annual results of the Group for the year ended 31 December 2010.

CORPORATE GOVERNANCE REPORT

Auditors' remuneration

For the year ended 31 December 2010, the fees for audit services rendered by Messrs. Baker Tilly Hong Kong Limited were as follows:

Auditors	Fees ('000)
Messrs. Baker Tilly Hong Kong Limited	HK$590

No remuneration was paid to Messrs. Baker Tilly Hong Kong Limited for provision of non-audited related services as Messrs. Baker Tilly Hong Kong Limited did not provide such services to the Company.

INTERNAL CONTROL

The Board acknowledges its responsibility for maintaining a sound and effective internal control system for the Company to safeguard investments of the shareholders and assets of the Company at all times.

The Board has conducted a review of the effectiveness of the system of internal control of the Group in 2010.

Internal Control System

The system of internal control aims to help achieve the Company's business objectives, safeguard assets and maintain proper accounting records for the provision of reliable financial information. The system is designed to provide reasonable, but not absolute assurance against material misstatement in the financial statements or loss of assets and to manage rather than eliminate risks of failure when business objectives are being sought.

The following are the key processes which the Board has adopted in reviewing the adequacy and integrity of the system of internal control for the Company:

- Monitoring mechanisms and management style

  There are periodic meetings of the Board attended by the Directors. The Board Committees and the management of the Company represent the main platform by which the Company's performance and conduct are monitored. The daily operations of business is entrusted to the Executive Chairman and the management team. Under the purview of the Executive Chairman, the respective heads of each operating department of the Company are empowered with the responsibility to manage their respective operations.

  The Board is responsible for setting the business direction and for overseeing the conduct of the Company's operations with the aid of the various Board Committees.

- Enterprise risk management framework

  The Board recognises that an effective risk management framework will allow the Company to identify, evaluate and manage risks that affect the achievement of the Company's business objectives within defined risk parameters in a timely and effective manner.

CORPORATE GOVERNANCE REPORT

Through scheduled periodic meetings, the Board will identify the risks affecting the Company and evaluates the effectiveness of the existing controls to determine whether any mitigation action plans need to be formulated accordingly. The Company's risk management framework is progressively being built up as the operations of the Smelter are rammed up.

Internal audit:

The Company's internal audit function is outsourced to a professional internal audit service provider and this ensures that the outsourced internal auditor is independent and has no involvement in the operations of the Company. The outsourced internal auditor which is responsible for the review and appraisal on the effectiveness of risk management, internal control and corporate governance processes in the Company, reports directly to the Audit Committee.

The Audit Committee has full and direct access to the outsourced internal auditor, reviews the reports on all audits performed and monitors the audit performance. The Audit Committee also reviews the adequacy of the scope, functions, competency and resources of the outsourced internal audit functions.

The outsourced internal auditor will carry out internal audits on various operating units within the Company based on the audit plan approved by the Audit Committee. Based on these audits, the outsourced internal auditor will provide the Audit Committee with periodic reports highlighting observations, recommendations and management action plans to improve the system of internal control.

Weaknesses in the system of internal control that result in material losses:

There were no material losses incurred during the current financial year as a result of weaknesses in internal control. The management will continue to take adequate measures to strengthen the control environment in which the Company operates.

The improvement of the system of internal control is an on-going process and the Board maintains an on-going commitment to strengthening the Company's control environment and processes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Each of the Directors understands and acknowledges his or her responsibility for the preparation and the true and fair presentation of the financial statements in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and 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.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the ability of the Company to continue as a going concern. The statement of auditors about their reporting responsibilities on the financial statements is set out in the Report of the Independent Auditor.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Goh Sin Huat

Mr. Goh Sin Huat, aged 62, Malaysian, has been appointed as Executive Director and Chairman of the Board and also Chairman of the Nomination Committee and of the Remuneration Committee of the Board with effect from 1 September 2010. His executive role for the Company is developing the commercialization of the Company's magnesium smelting operations in Perak, Malaysia, as well as taking the lead on the Company's general strategic direction.

Mr. Goh graduated from the University of Malaya, Malaysia, with a Bachelor Degree of Arts in 1972. He joined Ho Wah Genting Kintron Sdn Bhd, a wholly-owned subsidiary of Ho Wah Genting Berhad ("HWGB"), a public limited company incorporated under Malaysian law in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Malaysia"), a substantial shareholder of the Company, as a director in 1996. He was then appointed as the Chief Executive Officer/Managing Director of HWGB on 2 October 2000 and was subsequently promoted to be the Group Executive Chairman on 26 August 2003. He then resigned from HWGB on 1 September 2010.

Mr. Goh has extensive experience in the hotel, leisure, entertainment and gaming industry, the manufacturing of moulded power supply cord sets and cable assemblies and property development. It is anticipated that his extensive and varied business experience will help the Company build its customer base and negotiate and secure critical magnesium sales contracts.

Mr. Goh is related to Mr. Lim Ooi Hong, an Executive Director of the Company, being the father-in-law to Mr. Lim's sister.

Mr. Chong Wee Chong

Mr. Chong Wee Chong, aged 50, Malaysian, an Executive Director of the Company, joined the Board on 9 November 2007. Mr. Chong obtained his Bachelor of Science in Actuarial Science in 1986 and Master of Science in Actuarial Science/ Statistics in 1987 from the University of Iowa, USA. He is a Certified Financial Planner and a member of the Financial Planning Association of Malaysia. Mr. Chong has over 10 years of relevant experience in managing natural resources projects in Malaysia and infrastructure projects in the People's Republic of China (the "PRC") before joining the Company in 2004. Prior to joining the Group, Mr. Chong worked on the commercialisation and management of a number of "large-scale" projects including highways in the PRC and natural resource exploitation (timber and aluminum).

DIRECTORS AND SENIOR MANAGEMENT

Mr. Lim Ooi Hong

Mr. Lim Ooi Hong, aged 34, Malaysian, is an Executive Director of the Company for Special Projects. He joined the Board on 9 November 2007. Mr. Lim graduated from RMIT University with a Bachelor's Degree in Business (Business Administration) in 1998. Mr. Lim's contribution to the development of the Company began from inception, as he was a member of the task force established in February 2004 to develop the magnesium business.

Prior to joining the Company, Mr. Lim was involved in special projects relating to the exploration and processing of zircon and kaolin, both non-ferrous metals, in Kalimantan, Indonesia and a tin mining project in Bentong, Pahang, Malaysia.

Mr. Lim is related to Dato' Lim Hui Boon (his father), who serves as the Group President of the Company and Mr. Goh Sin Huat, an Executive Director and Chairman of the Board who is the father-in-law to Mr. Lim's sister.

Mr. Leung Wai Kwan

Mr. Leung Wai Kwan, aged 47, Chinese, has been appointed as an Executive Director of the Company with effect from 1 September 2010. Mr. Leung has been the Vice President, Business Development (Asia) of the Company since 1 March 2010. He will continue in a business development role for the Company.

Mr. Leung holds a Bachelor Degree of Business Administration in Finance from The Queen's University of Brighton, United States of America. Prior to joining the Company in March 2010, he was a principal of a local audit firm and the managing director of a consulting firm providing services of secretarial, taxation and corporate finance consultancy.

Prior to his appointment, he was an executive director of two companies listed on the Main board of the Stock Exchange for more than 7 years until 2004 and 2005 respectively, and has experience in merger and acquisition activities, financial management and corporate compliance.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT AND NON-EXECUTIVE DIRECTORS

Ms. Wong Choi Kay

Ms. Wong Choi Kay, aged 44, Malaysian, has been an Independent Non-executive Director of the Company since 27 December 2007 and the Chairperson of the Audit Committee of the Company since 14 October 2008. Ms. Wong obtained her Bachelor of Arts Degree from Queen's University, Kingston, Canada in 1988. She is a member of the Institute of Chartered Accountants of British Columbia, the Institute of Internal Auditors, a certified fraud examiner of the Association of Certified Fraud Examiners, Texas, USA and a member of the Institute of Corporate Directors, Corporate Governance College, Sauder School of Business, University of British Columbia, Canada.

Ms. Wong has more than 20 years of experience in forensic accounting, organisational design and development and Sarbanes-Oxley financial control reviews. Ms. Wong has provided consulting services to a number of mining companies, principally in the areas of corporate governance and due diligence. Some of the companies she has advised include Energy Metals Corporation, a uranium exploration company which is listed on Nasdaq and the Toronto Stock Exchange ("TSX"), Peregrine Diamonds Ltd which is also listed on the TSX, and Peregrine Metals Ltd which is engaged in gold and copper exploration.

Prior to joining the Company, from 1990 to 1995, Ms. Wong was a senior associate and an internal control specialist at PricewaterhouseCoopers where she advised on various internal control or other specialized engagements for clients involved in mining businesses, including Teck-Cominco (zinc, metallurgical coal, gold, copper and specialty metals; listed on TSX and the New York Stock Exchange), and KAP Resources Ltd. Ms. Wong has also been an Independent Non-executive Director of Nagacorp Ltd. (Stock Code 3918) a company listed on the Main board of the Stock Exchange from February 2005 to May 2009.

After leaving PricewaterhouseCoopers, Ms. Wong also worked for the Imperial Parking Group, Great Canadian Gaming Corporation, Vancouver International Airport Authority, Workers Compensation Board of British Columbia and the Royal Canadian Mounted Police. Additionally, Ms. Wong has consulted with a number of resource companies such as Oromin Explorations Inc. Strathmore Minerals Corp., Yukon Zinc Corporation, Madison Minerals Ltd, Entrée Gold, Golden Predator Mines Inc. and Crosshair Explorations & Mining Corp.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chong Lee Chang

Mr. Chong Lee Chang, aged 52, Malaysian, has been an Independent Non-executive Director of the Company since 27 December 2007. He graduated with a BA (Honours) degree in law from the Manchester Metropolitan University in 1982. He was admitted to the Honourable Society of Lincoln's Inn, London, in 1982 and was enrolled as a Barrister-at-Law in 1983. In 1984, he was admitted as an advocate and solicitor of the High Court of Malaya and is currently holding a legal practicing certificate to practice law in Malaysia. Mr. Chong has more than 25 years of experience in legal practice in Malaysia.

Mr. Chong is the founding and senior partner of a Kuala Lumpur based law firm, Messrs. LC Chong & Co. His legal experience has included advising various companies from Asia and United Kingdom, including steel millers from China. He has served as an Executive Director of Antah Holdings Berhad (a public company listed on the Main Market of Bursa Malaysia) from June 2000 to October 2001 and also held directorship in Permanis Sdn. Bhd., the Malaysian franchise holder and bottler of Pepsi-Cola and Seven-up. He was a director of Midwest Corporation Limited since May 2005, a company listed on the Australian Stock Exchange, whose main businesses are mining, exploring and processing iron ore. He resigned from Midwest Corporation in February 2009 after the company was wholly acquired by a Chinese company and delisted from the Australian Stock Exchange. Mr. Chong is a Non-executive Director of Bingo Group Holdings Limited (Stock Code: 8220) since 31 March 2009, a company listed on the GEM board of the Stock Exchange. On 25 June 2010, Mr. Chong was appointed as an Independent Non-executive Director of Agritrade Resources Limited (Stock Code: 1131), a company listed on the Main board of the Stock Exchange.

Mr. Chong is also the Managing Director of Guangxi Xin Wei Hotel Management Co., Ltd (廣西鑫偉酒店管理有限公司), a private foreign investment company in the PRC which owns the Naning Marriott Hotel (南寧鑫偉萬豪酒店).

Mr. Lam Cheung Shu

Mr. Lam Cheung Shu, aged 39, Chinese, has been an Independent Non-executive Director of the Company since 2 June 2008. He graduated with a Bachelor degree in Mechanical Engineering from the University of London, England. Mr. Lam has been working for a number of international financial institutions and has extensive experience in the banking industry. Currently, he is a seasoned banker at Standard Chartered Private Bank, serving high net worth customers and institutions.

DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Ms. Ma Sau Kuen Gloria

Ms. Ma Sau Kuen Gloria, aged 52, was appointed as the company secretary of the Company on 19 November 2010. Ms. Ma is a director and head of registration and compliance services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. Ms. Ma has almost 30 years of experience in corporate secretarial work that includes acting as company secretary for companies listed on the Stock Exchange, setting up companies in different jurisdictions such as Hong Kong, Cayman Islands and British Virgin Islands. She also has extensive knowledge and experience in corporate restructuring and legal compliance issues. Ms. Ma holds a master degree in Business Administration from the University of Strathclyde, Scotland, and is a Fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

SENIOR MANAGEMENT

Dato' Lim Hui Boon

Dato' Lim Hui Boon, aged 59, Malaysian, founder of HWGB, is the Company's Group President. He joined the Company in November 2009.

Since 2006, Dato' Lim has been involved in various aspects of the mining industry, particularly on trading, manufacturing and factory construction. He has ventured to a few countries in the Asia Pacific region and Australia to understand and study the nature of business especially on exploration, manufacturing and trading. Dato' Lim has gained invaluable experience on various types of minerals like gold, silver, tin, manganese and magnesium since then.

Dato' Lim has more than 30 years of experience in a diversified range of businesses such as hospitality, gaming operation, resorts, transportation services, travel and tours and property construction. His experience and leadership has resulted in HWGB, being listed on Second Board on 28 December 1994 and was subsequently transferred to the Main board of Bursa Malaysia on 2 November 2000.

Dato' Lim is currently a member of the Kuala Lumpur and Selangor Chinese Chamber of Commerce and Industry. Due to his many years of business endeavours, he has close ties with the Malaysian government authority bodies.

Dato' Lim is the father of Mr. Lim Ooi Hong, an Executive Director of the Company.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wong Keet Loy

Mr. Wong Keet Loy, aged 46, Malaysian, Chief Financial Officer, joined the Company since March 2010. He is a Fellow member of the Association of Chartered Certified Accountants, United Kingdom and a Chartered Accountant of the Malaysian Institute of Accountants. He holds a Diploma in Commerce (Financial Accounting).

He has over 20 years of experience in finance, corporate finance, banking and accounting in various industries.

Prior to joining the Company, Mr. Wong was the Chief Financial Officer of a US owned timber plantation and manufacturing company. He has also been a Group Financial Controller in an engineering company as well as a property developer during the course of his career. Both these companies are listed on the Main Market of Bursa Malaysia.

Mr. Gao Qi Fu

Mr. Gao Qi Fu (高齊富), aged 70, Chinese, Technical Advisor for Mining and Exploration since 1 September 2010. Prior to his current appointment, Mr. Gao was the Executive Director of the Company from 27 December 2007 to 1 September 2010. Mr. Gao graduated from Central South University majoring in non-ferrous metallurgy in 1963.

He has been involved in the task force set up to mine and extract dolomite from the dolomite hills in the state of Perak, Malaysia and to construct the first production line of the Smelter since February 2004. Mr. Gao has accumulated more than 40 years of mining and magnesium smelting experience. Prior to joining the Company, he worked for Shenyang Aluminum & Magnesium Engineering & Research Institute, (瀋陽鋁鎂設計研究院) ("SAMI") since the 1960s and over the course of his long employment history with SAMI has worked on the feasibilities studies of more than 15 magnesium plants located in amongst others, Hunan, Ningxia, Hebei, Gansu, Heilongjiang, Guangxi and Shanxi in the PRC.

After retiring from SAMI, Mr. Gao has been assisting magnesium plants in the PRC in various areas including plant development, magnesium production reengineering and new product development, such as high grade magnesium metal.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Gao was also involved in designing the engineering works in relation to the exploration activities of dolomite hills and mines, including the open pit dolomite mines in Linxiang, Hunan and Zhenjiang, Jiangsu. Mr. Gao also published various articles and commentaries which include "Suggestions on the strategic development of the magnesium industry in the PRC", "Evaluation of internal heating method for producing magnesium" and "Current market conditions and future development of the magnesium industry in the PRC". Mr. Gao is also co-author of the publication titled "Pidgeon Production Magnesium Smelting" Guideline issued by the China Magnesium Association ("CMA") in October 2005.

Mr. Gao has held the position of Deputy Head of the CMA Magnesium Production Expert Group since its set up in 2004, and was accredited professor rank senior engineer in recognition of his expertise in magnesium minerals. In 2007, Mr. Gao also participated in the training programme provided by experts from the CMA to Shanxi Dongyi Coal, Electricity and Aluminium Group Company (山西東義煤電鋁業集團公司). Mr. Gao was responsible for training the staff of the Company on environmental compliance issues.

Mr. Gao regularly participates in seminars and training courses organised for the magnesium industry in PRC and is a regular speaker on the topic.

REPORT OF THE DIRECTORS

The Directors hereby present their report together with the audited financial statements of the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 17 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement on page 44.

FINAL DIVIDENDS

The Board did not recommend the payment of any dividend in respect of the year ended 31 December 2010 (2009: Nil).

PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment of the Group for the year ended 31 December 2010 amounted to HK$122,798,533 (2009: HK$231,693,358).

Details of the movements in property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

GROUP PROPERTIES

The Company had valued its lease land, for the purpose of listing, on 31 August 2008. The land was valued at RM68,000,000, approximately HK$153,672,316 (exchange rate is based on the date of the Prospectus). For more details please refer to page III-4 of the Prospectus. As at 31 December 2010, the cost of the land was HK$14,831,962, as set out in note 13 to the financial statements.

	Value amount at $153.7 million	Value at cost $14.8 million	Additional Depreciation
Depreciation for year 2010	$0.61 million	$0.14 million	$0.47 million

REPORT OF THE DIRECTORS

MAJOR PROPERTIES HELD FOR DEVELOPMENT AS AT 31 DECEMBER 2010

Location	Intended use	Development progress	Expected date of completion	Total site area *(sq.m.)*	Gross floor area *(sq.m.)*	Group's interest *(%)*
Lot PT 14133, Kamunting Raya Industrial Estate, Phase III, Mukim Assam Kumbang, 34000 Taiping, State of Perak, Malaysia	Magnesium smelting plant	Phase 1 100%	In or about February 2011		49,372.90	100
		Phase 2 0%	Not yet commenced		22,013.50	100
				263,046	71,386.40	

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 28(b) to the financial statements.

INTEREST CAPITALISED

The amount of interest capitalised during the year was HK$14,293,224 (2009: HK$9,640,546).

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 28(a) to the financial statements respectively.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2010, calculated under section 79B of the Hong Kong Companies Ordinance, were represented by accumulated losses of HK$34,126,173 (2009: HK$12,250,678).

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Mr. Goh Sin Huat *(Executive Chairman)* (appointed on 1 September 2010)
Mr. Chong Wee Chong
Mr. Lim Ooi Hong
Mr. Leung Wai Kwan (appointed on 1 September 2010)
Mr. Gao Qi Fu (resigned on 1 September 2010)

Independent Non-executive Directors

Ms. Wong Choi Kay
Mr. Chong Lee Chang
Mr. Lam Cheung Shu
Mr. Tony Tan *(Chairman)* (resigned on 1 September 2010)

The biographical details of the Directors and senior management are set out under the section "Directors and Senior Management" of this Annual Report.

In accordance with Article 104(A) of the Articles of Association, Ms. Wong Choi Kay, Mr. Chong Lee Chang and Mr. Lam Cheung Shu, shall retire by rotation and being eligible, have offered themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has any existing or proposed service contract with the Company or its subsidiaries which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS

Save as disclosed under the headings "Continuing Connected Transactions" in the Report of the Directors and "Material Related Party Transactions" in note 34 to the financial statements, no Directors or controlling shareholder of the Company or their respective subsidiaries had a material interest, either directly or indirectly, in any contract of significance to the business of the Group and to which the Company, its subsidiaries, its fellow subsidiaries or its holding company was a party, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Up to the date of this report, none of the Directors have any beneficial interest in other businesses which constitute, either directly or indirectly, a competing business of the Group.

REPORT OF THE DIRECTORS

CONTROLLING SHAREHOLDER

HWGB, the single largest shareholder of the Company, has ceased to be the controlling shareholder under the definition of the Listing Rules during the year ended 31 December 2010. In view thereof, HWGB's annual confirmation of its compliance with the non-competition undertaking was not required.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the Independent Non-executive Directors and the Company considers Ms. Wong Choi Kay, Mr. Chong Lee Chang and Mr. Lam Cheung Shu to be independent.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2010, the Group had a total of approximately 171 employees (2009: 98 employees). Total staff costs (including Directors' emoluments), incurred for the year ended 31 December 2010 amounted to approximately HK$14.9 million (2009: HK$5.2 million). Remuneration packages of the Directors are recommended by the Remuneration Committee and approved by the Board. Employee remuneration will be determined by the management with reference to the performance, experience and industry practice.

SHARE OPTION SCHEME

The Company has a share option scheme (the "Scheme") which was adopted on 14 October 2008. The purpose of the Scheme is to attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentives to the employees; to provide eligible participants with the opportunity to acquire proprietary interests in the Company; and to promote the long term financial success of the Company by aligning the interests of grantees to the Shareholders. Under the Scheme, the Board shall be entitled at any time (except for the period as defined under the Listing Rules whereby price sensitive event or a price sensitive matter has been the subject of a decision) within 10 years commencing on the date of adoption of the Scheme to make an offer for the grant of an option to any employee (including any officer or director, whether executive or non-executive, of the Company or its subsidiaries), and any consultant, adviser, supplier, customer or subcontractor of the Company or any other person determined by the Board as appropriate.

The shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes must not exceed 10% of the shares of the Company in issue from time to time. The maximum number of shares available for issue under options which may be granted under the Scheme and any other schemes of the Company must not in aggregate exceed 10% of the shares of the Company in issue immediately following the commencement of dealings in the shares of the Company on the Stock Exchange, being 251,955,556 shares. The total number of shares of the Company issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each grantee must not exceed 1% of the shares of the Company in issue, such further grant shall be subject to separate approval by the Shareholders in general meeting with the relevant grantee and his associates abstaining from voting.

The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option but the subscription price shall not be less than whichever is the higher of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company. An offer shall remain open for acceptance for a period of 28 days from the date of offer (or such longer period as the Board may specify in writing). $1.00 is payable by the grantee to the Company on acceptance of the offer of the option. The period within which the shares of the Company must be taken up under an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

For the year ended 31 December 2010, no option has been granted or agreed to be granted under the Scheme.

INTERESTS AND SHORT POSITION OF DIRECTORS OR CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES OR UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2010, the interests and short positions of the Directors or Chief Executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in the shares:-

	Nature of interest		Total	Approximate percentage of
Name of director	Beneficial owner	Interest of spouse	Number of shares	shareholding
Leung Wai Kwan	100,000	13,298,000	13,398,000	0.53%

At no time during the year ended 31 December 2010 was the Company or its subsidiaries a party to any arrangement to enable the Directors and the chief executive officer of the Company (including their spouse and children under 18 years of age) to acquire benefits by an acquisition of shares or underlying shares in, or debentures of the Company or its subsidiaries.

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITION IN THE SHARES AND UNDERLYING SHARES OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, so far as is known to any Directors or the Chief Executive of the Company, the Shareholders, other than the Directors or the Chief Executive of the Company, who had an interest or short positions in the shares or the underlying shares of the Company, as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name	Nature of interest	Number of shares directly or indirectly held	Approximate percentage of shareholding
HWGB	Beneficial owner	744,150,000	29.53%
Lok Beng Huah	Beneficial owner	150,014,445	5.95%
Perbadanan Kemajuan Negeri Perak (or Perak State Development Corporation)	Beneficial owner	135,300,000	5.37%

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained the prescribed minimum amount of public float from the date of its Listing and up to the date of this Annual Report as required by the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this report.

MAJOR CUSTOMERS AND SUPPLIERS

As at 31 December 2010, the proportion of purchases and sales from major suppliers and major customers of the Group to the total purchases and sales, respectively, are as follows:

Purchases

The total purchases from the largest supplier and five largest suppliers of the Group represent 66.4% and 98.4% of the total purchases respectively. All transactions between the Group and its suppliers were conducted on normal commercial terms.

REPORT OF THE DIRECTORS

Sales

The total sales from the largest customer and five largest customers of the Group represent 56.6% and 99.8% of the total sales value respectively. All transactions between the Group and its customers were conducted on normal commercial terms.

During the year, to the best of the Directors' knowledge, none of the Directors, senior management or their respective associates or any shareholders of the Company who holds more than 5% of the issued share capital of the Company had any interest in the five largest customers or the five largest suppliers of the Group.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

POST BALANCE SHEET EVENT

Loan drawn down

On 24 January 2011, the balance of the KFHMB banking facility of RM15.0 million (equivalent to HK$37.8 million) was drawn down. The aggregate value of short term bank loan from KFHMB of RM115.0 million (equivalent to HK$290.1 million) and accrued bank guarantee commission of RM2.8 million (equivalent to HK$7.1 million) was fully converted into a ten-year term loan of RM117.8 million (equivalent to HK$297.2 million) provided by Bank Rakyat on 2 February 2011.

Raising of funds

On 28 January 2011, the Company entered into a conditional share placing agreement with UOB Kay Hian pursuant to which UOB Kay Hian agreed to place up to 340,000,000 new shares at the price of HK$0.228 per share. The Company also entered into a conditional warrant placing agreement with UOB Kay Hian pursuant to which UOB Kay Hian agreed to place 163,900,000 warrants at the price of HK$0.005 per warrant, which has conferred rights to subscribe for 163,900,000 new shares at the warrant exercise price of HK$0.27 per share.

The net proceeds from the above placing and subsequent exercise of all the warrants are estimated to be approximately HK$76.0 million and HK$43.2 million respectively, which will be used for general working capital of the Group.

Please refer to the Company's announcement dated 28 January 2011 for further details.

Acquisition of a subsidiary

On 23 February 2011, the Agreement was entered into between the Company and the Vendors, pursuant to which the Company has conditionally agreed to purchase and the Vendors have conditionally agreed to sell 51% of entire issued share capital of Step Pacific for the consideration of HK$220,000,000, which shall be satisfied by the payment of deposit of HK$11,000,000 to the Vendors upon signing the Agreement and by the issue of an aggregate of 653,125,000 ordinary shares to the Vendors.

Step Pacific is a company incorporated in the British Virgin Islands with limited liability, whose principal business activity is investment holding. Step Pacific holds 100% equity interest of Stabil Megamas, which in turn holds 75% of the issued share capital of PT. LM. PT. LM is the holder of an exploration mining permit for the exploration of manganese in Indonesia for a period of 1 year from 6 March 2010.

Please refer to the Company's announcement dated 23 February 2011 for further details.

CONTINUING CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 34 to the financial statements also constituted continuing connected transactions of the Group within the meaning of the Listing Rules. These continuing connected transactions which the Group had entered into with HWGB, Ho Wah Genting Poipet Resorts Sdn. Bhd. ("HWGP") and Harta Perak Corporation Sdn. Bhd. ("HPC") in 2010 were for the following purposes:

- Renting of office premises for operations by CVMSB from HWGB
- Sharing of company secretarial services with HWGB
- On demand purchase of air tickets from HWGP, an associate of HWGB in which HWGB has 40% equity interest
- Maintenance fee payment to HPC for mining of dolomite

Although these transactions were "continuing connected transactions" as defined in the Listing Rules, all of them were either in relation to consumer goods or consumer services, or sharing of administrative services or de minimis transactions exempted under rules 14A.33(1) to 14A.33(3) of the Listing Rules from reporting, announcement and independent Shareholders' approval requirements.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules during the year.

REPORT OF THE DIRECTORS

Our Independent Non-executive Directors have reviewed the continuing connected transactions and are of the view that the continuing connected transactions have been entered into under the following circumstances:

(a) in the ordinary and usual course of business;

(b) on normal commercial terms or on terms no less favourable to the Group than terms offered to/by independent third parties; and

(c) in accordance with the relevant agreements governing those transactions on terms that are fair and reasonable and in the interest of the Shareholders as a whole.

AUDITORS

Baker Tilly Hong Kong Limited ("Baker Tilly") was appointed as auditors of the Company in 2010 upon the retirement of KPMG at the annual general meeting ("AGM") of the Company on 19 May 2010.

The financial statements for the year ended 31 December 2010 have been audited by Baker Tilly. A resolution will be submitted at the current AGM of the Company to re-appoint Baker Tilly as auditor of the Company.

On behalf of the Board
CVM Minerals Limited

Goh Sin Huat
Executive Chairman

Kuala Lumpur, Malaysia, 23 February 2011

INDEPENDENT AUDITOR's REPORT

TO THE SHAREHOLDERS OF CVM MINERALS LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of CVM Minerals Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 44 to 130, which comprise the consolidated and Company's statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statement that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

It is our responsibility to form an independent opinion, based on our audit, on the consolidated financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, 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 consolidated financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR's REPORT

OPINION

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

Baker Tilly Hong Kong Limited
Certified Public Accountants
Hong Kong,
Lo Wing See
Practising certificate number P04607

23 February 2011

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2010

(Expressed in Hong Kong dollars)

	Note	2010 HK$	2009 HK$
Turnover	4	**8,497,324**	—
Cost of sales		**(16,339,278)**	—
Gross loss		**(7,841,954)**	—
Other revenue	5	**1,600,161**	2,163,189
Other net income	6	**437,913**	3,930,839
Selling and distribution expenses		**(206,770)**	—
Administrative expenses		**(32,945,394)**	(20,108,658)
Loss from operations		**(38,956,044)**	(14,014,630)
Finance costs	7(a)	**(7,457,972)**	(78,636)
Loss before taxation	7	**(46,414,016)**	(14,093,266)
Income tax	8	**(4,132)**	(10,725)
Loss for the year		**(46,418,148)**	(14,103,991)
Attributable to:			
Equity holders of the Company		**(46,315,021)**	(14,103,991)
Non-controlling interests		**(103,127)**	—
Loss for the year		**(46,418,148)**	(14,103,991)
Loss per share	11		
Basic		**(2.13 cents)**	(0.78 cents)
Diluted		**N/A**	N/A

The notes on pages 52 to 130 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

(Expressed in Hong Kong dollars)

	2010 HK$	2009 HK$
Loss for the year	**(46,418,148)**	(14,103,991)
Other comprehensive income for the year (after tax)		
Exchange differences on translation of financial statements of overseas subsidiaries	**24,403,199**	1,126,698
Total comprehensive expense for the year	**(22,014,949)**	(12,977,293)
Attributable to:		
Equity holders of the Company	**(21,911,572)**	(12,977,293)
Non-controlling interests	**(103,377)**	—
Total comprehensive expense for the year	**(22,014,949)**	(12,977,293)

The notes on pages 52 to 130 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2010

(Expressed in Hong Kong dollars)

	Note	2010 HK$	2009 HK$
Non-current assets			
Fixed assets	13		
– Property, plant and equipment		636,628,871	461,465,543
– Interest in leasehold land held for own use under operating lease		14,120,778	12,799,191
Goodwill	14	120,479,667	—
Exploration and evaluation assets	15	7,148,983	3,683,359
Mining deposit	16	227,055	203,692
		778,605,354	478,151,785
Current assets			
Inventories	18	4,653,186	235,156
Trade receivables	19	8,795,408	—
Prepayments, deposits and other receivables	20	67,995,495	6,672,225
Pledged deposits	21	3,811,658	3,352,704
Cash at bank and in hand		44,039,009	4,155,067
		129,294,756	14,415,152
Current liabilities			
Trade and other payables	22	62,147,931	4,717,040
Obligations under finance leases	23	907,296	86,629
Amounts due to related parties	24	1,087,093	7,092,930
Amount due to a director	25	—	3,005,549
Derivative components of convertible bonds	26	5,421,106	—
Convertible bonds	26	116,380,749	—
Bank loans – secured	27	399,873,440	357,757,920
		585,817,615	372,660,068
Net current liabilities		(456,522,859)	(358,244,916)
Total assets less current liabilities		322,082,495	119,906,869

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2010

(Expressed in Hong Kong dollars)

	Note	2010 HK$	2009 HK$
Non-current liabilities			
Obligations under finance leases	23	3,196,685	516,186
		3,196,685	516,186
Net assets		318,885,810	119,390,683
Capital and reserves	28		
Share capital		62,988,889	45,100,000
Reserves		255,896,762	74,290,683
Total equity attributable to equity holders of the Company		318,885,651	119,390,683
Non-controlling interests		159	—
Total equity		318,885,810	119,390,683

Approved and authorised for issue by the board of directors on 23 February 2011.

Goh Sin Huat
Director

Leung Wai Kwan
Director

The notes on pages 52 to 130 form part of the consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

at 31 December 2010

(Expressed in Hong Kong dollars)

	Note	2010 HK$	2009 HK$
Non-current assets			
Fixed assets			
– Property, plant and equipment	13	145,847	178,125
Investments in subsidiaries	17	437,032,383	134,554,769
		437,178,230	134,732,894
Current assets			
Prepayments, deposits and other receivables	20	4,328,727	399,381
Pledged deposits	21	3,784,248	3,352,704
Cash at bank and in hand		12,912,192	28,222
		21,025,167	3,780,307
Current liabilities			
Other payables and accrued expenses	22	2,005,763	2,906,161
Amount due to a director	25	—	742,306
Derivative components of convertible bonds	26	5,421,106	—
Convertible bonds	26	116,380,749	—
		123,807,618	3,648,467
Net current (liabilities)/assets		(102,782,451)	131,840
Net assets		334,395,779	134,864,734
Capital and reserves	28		
Share capital		62,988,889	45,100,000
Reserves		271,406,890	89,764,734
Total equity		334,395,779	134,864,734

Approved and authorised for issue by the board of directors on 23 February 2011.

Goh Sin Huat	Leung Wai Kwan
Director	Director

The notes on pages 52 to 130 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

(Expressed in Hong Kong dollars)

	Note	Share capital HK$	Share premium HK$ (note 28(c)(i))	Exchange reserve HK$ (note 28(c)(ii))	Other reserve HK$ (note 28(c)(iii))	Accumulated losses HK$	Total HK$	Non-controlling interests HK$	Total equity HK$
		Attributable to equity holders of the Company							
At 1 January 2009		45,100,000	68,090,412	3,814,315	30,856,527	(15,493,278)	132,367,976	—	132,367,976
Changes in equity for 2009:									
Total comprehensive expense for the year		—	—	1,126,698	—	(14,103,991)	(12,977,293)	—	(12,977,293)
At 31 December 2009		45,100,000	68,090,412	4,941,013	30,856,527	(29,597,269)	119,390,683	—	119,390,683
At 1 January 2010		45,100,000	68,090,412	4,941,013	30,856,527	(29,597,269)	119,390,683	—	119,390,683
Changes in equity for 2010:									
Total comprehensive expense for the year		—	—	24,403,449	—	(46,315,021)	(21,911,572)	(103,377)	(22,014,949)
Acquisition of subsidiaries		—	—	—	—	—	—	103,536	103,536
Shares issued pursuant to the share placing	28(b)	9,000,000	116,996,696	—	—	—	125,996,696	—	125,996,696
Shares issued pursuant to the the acquisition	28(b)	8,888,889	86,520,955	—	—	—	95,409,844	—	95,409,844
At 31 December 2010		**62,988,889**	**271,608,063**	**29,344,462**	**30,856,527**	**(75,912,290)**	**318,885,651**	**159**	**318,885,810**

The notes on pages 52 to 130 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2010

(Expressed in Hong Kong dollars)

	Note	2010 HK$	2009 HK$
Operating activities			
Loss before taxation		**(46,414,016)**	(14,093,266)
Adjustments for:			
– Amortisation of exploration and evaluation assets	7(c)	**196,498**	—
– Amortisation of interest in leasehold land held for own use under operating lease	7(c)	**140,182**	127,720
– Depreciation	7(c)	**429,616**	122,949
– Fair value gain on derivative components of convertible bonds	5	**(397,565)**	—
– Finance costs	7(a)	**7,457,972**	78,636
– Foreign exchange losses/(gains)		**11,288,732**	(3,930,839)
– Gain on disposal of fixed assets	5	**(4,025)**	—
– Interest income	5	**(276,326)**	(145,316)
Operating loss before changes in working capital		**(27,578,932)**	(17,840,116)
Increase in inventories		**(4,391,058)**	(232,226)
Increase in trade receivables		**(8,795,408)**	—
(Increase)/decrease in prepayments, deposits and other receivables		**(60,291,053)**	9,756,776
Decrease in amount due from a related party		**—**	234,203
Increase in trade and other payables		**54,044,980**	3,373,855
(Decrease)/increase in amounts due to related parties		**(6,819,382)**	7,004,550
(Decrease)/increase in amount due to a director		**(3,265,138)**	2,968,100
Cash (used in)/generated from operating activities		**(57,095,991)**	5,265,142
Tax paid		**(4,132)**	(10,725)
Net cash (used in)/generated from operating activities		**(57,100,123)**	5,254,417
Investing activities			
Acquisition of subsidiaries, net of cash acquired	30	**(23,925,273)**	—
Increase in pledged deposits		**(27,410)**	(3,352,704)
Additions of exploration and evaluation assets		**(946,032)**	—
Payment for purchase of fixed assets		**(108,505,309)**	(267,633,384)
Proceeds from disposal of fixed assets		**100,914**	—
Interest received		**276,326**	145,316
Net cash used in investing activities		**(133,026,784)**	(270,840,772)

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2010

(Expressed in Hong Kong dollars)

	Note	2010 HK$	2009 HK$
Financing activities			
Capital element of finance lease rentals paid		**(448,206)**	(79,877)
Proceeds from the issue of shares		**125,406,540**	—
Proceeds from bank loans, net of transaction costs		**—**	249,752,849
Proceeds from finance obligation		**3,886,321**	—
Proceeds from the issue of convertible bonds	26	**116,000,000**	—
Interest paid on finance lease rentals		**(137,111)**	(28,949)
Interest paid on bank loans		**(14,223,355)**	(12,181,120)
Net cash generated from financing activities		**230,484,189**	237,462,903
Net increase/(decrease) in cash and cash equivalents		**40,357,282**	(28,123,452)
Cash and cash equivalents at beginning of the year		**4,155,067**	32,227,099
Effect of foreign exchange rate changes		**(473,340)**	51,420
Cash and cash equivalents at end of the year		**44,039,009**	4,155,067

The notes on pages 52 to 130 form part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 COMPANY INFORMATION

CVM is a company incorporated and domiciled in Hong Kong. The address of its registered office is 8/F., Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong. The address of its principal place of business is 3/F., Wisma Ho Wah Genting, No. 35, Jalan Maharajalela, 50150 Kuala Lumpur, Malaysia. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the"Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 17 to the consolidated financial statements.

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the consolidated financial statements.

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that derivative components of convertible bonds which are carried at their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

The preparation of the consolidated financial statements in conformity with the HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Judgement made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 36.

As at 31 December 2010, the Group had net current liabilities of HK$456,522,859 (2009: HK$358,244,916). The Group's loss after taxation amounted to HK$46,418,148 (2009: HK$14,103,991) for the year ended 31 December 2010. In view of these circumstances, the directors of the Company have given careful consideration to the future liquidity and performance of the Group in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Despite the delayed commencement of the commercial production for the production line of the magnesium smelter in Perak, Malaysia (the "Smelter"), the directors of the Company are of the opinion that the use of the going concern assumption in the preparation of the consolidated financial statements is appropriate, as they consider that the Group will have sufficient means to finance the Group's working capital when taking into account the following factors.

(i) Available banking facilities

In order to finance the operations of the Smelter, the Group's wholly owned subsidiary, CVM Magnesium Sdn. Bhd. (formerly known as Commerce Venture Magnesium Sdn. Bhd. ("CVMSB") obtained banking facilities totalling RM175.0 million (equivalent to HK$441.5 million), which comprises a banking facility amounting to RM114.6 million (equivalent to HK$289.1 million) from Kuwait Finance House (Malaysia) Berhad ("KFHMB") and term loan facilities amounting to RM60.4 million (equivalent to HK$152.4 million) from Bank Kerjasama Rakyat Malaysia Berhad ("Bank Rakyat"). The banking facility provided by KFHMB is guaranteed by Bank Rakyat and is convertible into a term loan facility of RM117.8 million (equivalent to HK$297.2 million), offered by Bank Rakyat, with a ten-year term from the conversion date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

(i) Available banking facilities (continued)

Up to 31 December 2010, CVMSB has drawn down RM99.6 million (equivalent to HK$251.3 million) (2009: RM99.6 million (equivalent to HK$225.4 million)) and RM60.4 million (equivalent to HK$152.4 million) (2009: RM55.5 million (equivalent to HK$125.6 million)) from KFHMB and Bank Rakyat respectively. Unutilised banking facilities amounted to a total of RM15.0 million (equivalent to HK$37.8 million) (2009: RM17.5 million (equivalent to HK$39.6 million)) as at 31 December 2010.

On 24 January 2011, the balance of the KFHMB banking facility of RM15.0 million (equivalent to HK$37.8 million) was drawn down. The aggregate value of short term bank loan from KFHMB of RM115.0 million (equivalent to HK$290.1 million) and accrued bank guarantee commission of RM2.8 million (equivalent to HK$7.1 million) were fully converted into a ten-year term loan of RM117.8 million (equivalent to HK$297.2 million) provided by Bank Rakyat on 2 February 2011.

In accordance with the restructured bank loan agreements of 5 July 2010, the Group is required to repay the bank loans by monthly instalment of RM743,065 (equivalent to HK$1,874,628) commencing on or before 31 January 2011 and increasing to RM2,190,758 (equivalent to HK$5,526,914) commencing on or before 2 March 2011 to Bank Rakyat for the next 10 years.

The directors of the Company are confident that with the current available banking facilities, funds raised through the equity transactions as disclosed in (ii) below and the expected source of income generated from the step-up of operations of the Smelter in or around February 2011, the Group will be able to meet the above financial obligations as and when they fall due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

(ii) Raising of funds through equity transactions

On 28 January 2011, the Company entered into a conditional share placing agreement with UOB Kay Hian (Hong Kong) Limited ("UOB Kay Hian") pursuant to which UOB Kay Hian agreed to place up to 340,000,000 new shares at the price of HK$0.228 per share. The Company also entered into a conditional warrant placing agreement with UOB Kay Hian pursuant to which UOB Kay Hian agreed to place 163,900,000 warrants at the price of HK$0.005 per warrant, which has conferring rights to subscribe for 163,900,000 new shares at the warrant exercise price of HK$0.27 per share.

The net proceeds from the above placings and subsequent exercise of all the warrants are estimated to be approximately HK$76.0 million and HK$43.2 million respectively, which will be used for general working capital of the Group.

After taking into account the above factors, the directors are satisfied that the Group will have sufficient funding to enable it to operate as a going concern and meet its financial obligations as and when they fall due. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Subsidiaries *(continued)*

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity holders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity holders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(h)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Business combination and goodwill

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 (revised 2008), Business combinations, are recognised at their fair values, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with HKFRS 2, Shared-based payment; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current assets held for sale and discontinued operations are measured in accordance with that standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends when the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learn that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Business combination and goodwill *(continued)*

The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognised for a business combination. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the following as of the acquisition date:

(a) the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree;

(b) the consideration transferred for the acquiree (or the other amount used in measuring goodwill); and

(c) the resulting goodwill or gain on a bargain purchase.

During the measurement period, the acquirer recognise adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(h)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(h)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(u)).

Construction in progress represents property, plant and equipment under construction and equipment pending installation and is stated at cost less impairment losses (see note 2(h)). Cost comprises direct costs of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use was completed.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to accumulated losses and is not reclassified to profit or loss.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings	10-50 years
– Plant and machinery	25 years
– Motor vehicles	5-10 years
– Furniture and fittings	10 years
– Office equipment	10 years
– Computer equipment	3 years
– Retorts	25 years

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Leased assets

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

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(e). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(h). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Leased assets *(continued)*

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight line basis over the period of the lease term except where the property is classified as an investment property or is held for development for sale.

(g) Exploration and evaluation assets

Exploration and evaluation assets comprise costs which are directly attributable to: researching and analysing existing exploration data; conducting geological studies, exploratory drilling and sampling; examining and testing extraction and treatment methods; and compiling prefeasibility and feasibility studies. Exploration and evaluation assets also includes the costs incurred in the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Exploration and evaluation expenditure is capitalised if the project is technically and commercially feasible and the Group has sufficient resources and the intention to complete the project. If a project does not prove viable, all irrecoverable costs associated with the project are expensed in profit or loss. Capitalised exploration and evaluation expenditures are stated in the statement of financial position at cost less accumulated amortisation and impairment losses (see note 2(h)).

Upon the commencement of quarrying activities, the capitalised exploration and evaluation expenditure is amortised using the straight line method over its estimated useful life of 20 years. Both the useful life of an asset and amortisation method are reviewed annually.

Exploration and evaluation assets are tested for impairment when facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation asset's carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use. For the purposes of assessing impairment, the exploration and evaluation assets subject to testing are grouped with existing cash-generating units of production fields that are located in the same geographical region.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

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

If any such evidence exists, any impairment loss is determined and recognised as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Impairment of assets *(continued)*

(i) Impairment of trade and other receivables (continued)

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

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– pre-paid interests in leasehold land classified as being held under an operating lease;

– investments in subsidiaries; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(k) Convertible bonds

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments (see note 2(l)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bond are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with note 2(l). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(l) Derivative financial instruments

Derivate financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. Except where the derivates qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employee. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments (The Group may issue equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Income tax *(continued)*

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Provision and contingent liabilities

(i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(r)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or where no present obligations at the date of acquisition are disclosed in accordance with note 2(r)(ii).

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised directly in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Related parties

For the purposes of the consolidated financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decision, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segment which are not individually materials may be aggregated if they share a majority of these criteria.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued revised HKFRSs, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the consolidated financial statements:

- HKFRS 3 (revised 2008), Business combinations
- Amendment to HKFRS 5, Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary (as part of improvements to HKFRSs (2008)
- HKAS 27 (revised 2008), Consolidated and separate financial statements
- Amendment to HKAS 39, Financial instruments: Recognition and measurement - eligible hedged items
- Amendments made under improvements to HKFRSs (2009)
- HK(IFRIC)-Int 17, Distributions of non-cash assets to owners
- HK-Int 5, Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause
- Amendment to HKFRS 2, Share-based payment-Group cash-settled share-based payment transaction

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

The amendment to HKAS 39 and the issuance of HK-Int 5 have had no material impact on the consolidated financial statements as the amendment and the Interpretation's conclusions were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

4 TURNOVER

Construction and installation works at the Group's Smelter have been completed at the end of June 2010. In view thereof, the Group has commenced earning revenue during the year ended 31 December 2010.

Turnover represents the sales value of magnesium ingots supplied to customers during the year.

5 OTHER REVENUE

	2010 HK$	2009 HK$
Fair value gain on derivative components of convertible bonds	**397,565**	—
Gain on disposal of fixed assets	**4,025**	—
Government grant	**908,770**	2,017,873
Interest income	**276,326**	145,316
Rental income	**13,475**	—
	1,600,161	2,163,189

Government grant represents grant in respect of training expenses incurred by the Group for workers who are Malaysian citizens. The grant was approved by Malaysian Industrial Development Authority, an agency under the Ministry of International Trade and Industry of Malaysia. There are no unfulfilled conditions and other contingencies attached to the receipt of this grant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6 OTHER NET INCOME

	2010 HK$	2009 HK$
Net foreign exchange gains	437,913	3,930,839

7 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Finance costs:

	2010 HK$	2009 HK$
Interest on convertible bonds	6,199,420	—
Interest on bank loans *:		
– wholly repayable within five years	8,033,028	13,298,022
– wholly repayable after five years	2,364,688	3,355,250
	10,397,716	16,653,272
Amortisation of loan transaction costs	347,104	4,149,972
Other borrowing costs	4,669,845	3,085,779
Finance charges on obligations under finance leases	137,111	28,949
Total interest expense on financial liabilities not at fair value through profit or loss	15,551,776	23,917,972
Less: Finance costs capitalised into construction in progress **	(14,293,224)	(23,839,336)
	1,258,552	78,636
	7,457,972	78,636

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

7 LOSS BEFORE TAXATION *(continued)*

(a) Finance costs: *(continued)*

* The analysis shows the finance costs of bank loans, including term loans which contain a repayment on demand clause, in accordance with the agreed scheduled repayments dates set out in the loan agreements. For the years ended 31 December 2010 and 2009, the interest on bank loans which contain a repayment on demand clause amounted to HK$10,397,716 and HK$16,653,272 respectively.

** Interest on bank loans and others have been capitalised at a rate of 7.6% - 8.3% (2009: 7.6% - 9.3%) per annum for the year ended 31 December 2010.

(b) Staff costs:

	2010	2009
	HK$	HK$
Salaries, wages, bonuses and other benefits	**13,983,808**	4,804,713
Contributions to defined contribution retirement plan	**957,190**	369,366
	14,940,998	5,174,079

Pursuant to the relevant labour laws and regulations in Malaysia, CVMSB participates in a defined contribution retirement benefit scheme ("the Scheme") organised by the Malaysian government whereby CVMSB is required to make contributions to the Scheme at a rate of 12% (2009: 12%) of the eligible employees' salaries. Contributions to the Scheme vest immediately.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

7 LOSS BEFORE TAXATION *(continued)*

(c) Other items:

	2010 HK$	2009 HK$
Amortisation of exploration and evaluation assets	**196,498**	—
Amortisation of interest in leasehold land held for own use under operating lease	**140,182**	127,720
Auditors' remuneration	**724,024**	898,005
Cost of inventories	**16,339,278**	—
Depreciation	**429,616**	122,949
Operating lease charges:		
– equipment and machinery	**154,579**	161,475
– office premises	**1,126,474**	358,969
– office equipment	**39,949**	39,570
– staff housing	**15,986**	—

The cost of inventories includes HK$4,379,944 (2009: HK$Nil) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in note 7(b) for each of these types of expenses.

8 INCOME TAX

(a) Pursuant to the income tax rules and regulations of Malaysia, CVMSB is liable to Malaysian Income Tax at a rate of 25% (2009: 25%) for the year ended 31 December 2010.

Income tax for the years ended 31 December 2010 and 2009 represents provision for Malaysian Income Tax on interest income.

Pursuant to the Inland Revenue Ordinance of Hong Kong, assessable profit of the Company arising in or derived from Hong Kong is subject to the statutory income tax rate of 16.5% (2009: 16.5%). No provision for Hong Kong Profits Tax has been made as the Company did not have assessable profit for the years ended 31 December 2010 and 2009.

No provision for Indonesian Income Tax has been made as the Group did not have assessable profit for the year ended 31 December 2010.

Member of the Group incorporated under the Business Companies Act 2004 (as amended) of the British Virgin Islands is exempted from payment of income taxes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

8 INCOME TAX *(continued)*

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2010 HK$	2009 HK$
Loss before taxation	**(46,414,016)**	(14,093,266)
Notional tax credit on loss before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	**(9,543,218)**	(2,852,510)
Tax effect of non-taxable income	**(166,119)**	(1,505,925)
Tax effect of non-deductible expenses	**1,902,975**	4,369,160
Tax effect of unused tax losses not recognised	**7,836,679**	—
Tax effect of temporary differences not recognised	**(30,317)**	—
Tax under-provision in prior year	**4,132**	—
Actual tax expense	**4,132**	10,725

(c) As at 31 December 2010, the Group has not recognised deferred tax assets in respect of accumulated tax losses of approximately HK$43,389,000 (2009:HK$7,897,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction. The tax losses do not expire under current tax legislation. Other temporary differences are not material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

9 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2010				
	Directors' fees HK$	Salaries, allowances and benefits in kind HK$	Discretionary bonuses HK$	Retirement scheme contributions HK$	Total HK$
Executive Directors:					
Chong Wee Chong	134,697	434,659	—	53,656	623,012
Lim Ooi Hong	73,317	347,727	—	43,224	464,268
Goh Sin Huat (appointed on 1 September 2010)	—	289,772	—	34,773	324,545
Leung Wai Kwan (appointed on 1 September 2010)	—	160,000	—	4,000	164,000
Gao Qi Fu (resigned on 1 September 2010)	75,313	—	—	—	75,313
Independent Non-executive Directors:					
Chong Lee Chang	109,193	—	—	—	109,193
Lam Cheung Shu	109,193	—	—	—	109,193
Wong Choi Kay	106,853	—	—	—	106,853
Tony Tan (resigned on 1 September 2010)	71,573	—	—	—	71,573
Total	680,139	1,232,158	—	135,653	2,047,950

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

9 DIRECTORS' REMUNERATION *(continued)*

	2009				
	Directors' fees HK$	Salaries, allowances and benefits in kind HK$	Discretionary bonuses HK$	Retirement scheme contributions HK$	Total HK$
Executive Directors:					
Chong Wee Chong	341,545	396,018	—	47,522	785,085
Gao Qi Fu	186,000	—	—	—	186,000
Lim Ooi Hong	98,832	316,814	—	38,018	453,664
Independent Non-executive Directors:					
Chong Lee Chang	93,000	—	—	—	93,000
Lam Cheung Shu	93,000	—	—	—	93,000
Tony Tan	93,000	—	—	—	93,000
Wong Choi Kay	93,000	—	—	—	93,000
Total	998,377	712,832	—	85,540	1,796,749

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2009: three) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other three (2009: two) individuals are as follows:

	2010 HK$	2009 HK$
Salaries, allowances and benefits in kind	**1,374,242**	370,704
Discretionary bonuses	**—**	—
Retirement scheme contributions	**6,000**	25,345
	1,380,242	396,049

(Expressed in Hong Kong dollars)

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS *(continued)*

The emoluments of the three (2009: two) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2010	2009
	HK$	HK$
HK$Nil to HK$1,000,000	**3**	2
HK$1,000,001 to HK$1,500,000	**—**	—
HK$1,500,001 to HK$2,000,000	**—**	—
HK$2,000,001 to HK$2,500,000	**—**	—
	3	2

During the year, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group. The Group did not pay compensation for loss of office to the directors of the Company or the five highest paid individuals for the years ended 31 December 2010 and 2009. No directors of the Company has waived or agreed to waive any emoluments during the years ended 31 December 2010 and 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

11 LOSS PER SHARE

(a) Basic loss per share

The calculation of loss per share is based on the loss attributable to equity holders of the Company of HK$46,315,021 (2009: HK$14,103,991) and the weighted average of 2,177,710,807 (2009: 1,804,000,000) ordinary shares in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares:

	2010	2009
Issued ordinary shares/number of ordinary shares deemed to be outstanding at 1 January	**187,813,699**	451,000,000
Effect of issue of new shares pursuant to the share placing (note 28(b)(iii))	**1,624,043,836**	—
Effect of issue of new shares pursuant to the acquisition (note 28(b)(iii))	**365,853,272**	—
Effect of share subdivision (note 28(b)(iii))	**—**	1,353,000,000
Weighted average number of ordinary shares at 31 December	**2,177,710,807**	1,804,000,000

(b) Diluted loss per share

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in a decrease in loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING

The Group has two reportable segments, which are the mining of dolomite and manufacture of magnesium ingots, and exploration of iron ore, coal and manganese. The segment information reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment is the same as those reported in these financial statements.

The accounting policies of the operating segment is the same as those described in note 2 to the consolidated financial statements.

(a) Information about reportable segment profit or loss, assets and liabilities

	Mining of dolomite and manufacture of magnesium ingots HK$	Exploration of iron ore, coal and manganese HK$	Total HK$
Year ended 31 December 2010			
Revenue from external customers	8,497,324	—	8,497,324
Segment loss	(21,709,777)	(107,023)	(21,816,800)
Interest revenue	182,021	—	182,021
Finance costs	(1,258,552)	—	(1,258,552)
Depreciation and amortisation	(730,591)	—	(730,591)
Gain on disposals of fixed assets	4,025	—	4,025
Other material items of income and expenses:			
Income tax expenses	(4,132)	—	(4,132)
Additions to segment non-current assets	122,792,950	123,728,108	246,521,058
As at 31 December 2010			
Segment assets	731,512,870	124,033,208	855,546,078
Segment liabilities	(61,895,580)	(3,421,291)	(65,316,871)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING *(continued)*

(a) Information about reportable segment profit or loss, assets and liabilities *(continued)*

	Mining of dolomite and manufacture of magnesium ingots HK$	Exploration of iron ore, coal and manganese HK$	Total HK$
Year ended 31 December 2009			
Revenue from external customers	—	—	—
Segment loss	(5,937,845)	—	(5,937,845)
Interest revenue	57,966	—	57,966
Finance costs	(78,636)	—	(78,636)
Depreciation and amortisation	(242,915)	—	(242,915)
Other material items of income and expenses:			
Income tax expenses	(10,725)	—	(10,725)
Additions to segment non-current assets	231,507,479	—	231,507,479
As at 31 December 2009			
Segment assets	484,481,660	—	484,481,660
Segment liabilities	(11,769,867)	—	(11,769,867)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING *(continued)*

(b) Reconciliations of reportable segments revenue, profit or loss, assets and liabilities

	2010 HK$	2009 HK$
Revenue		
Total revenue of reportable segments	8,497,324	—
Other revenue	—	—
Profit or loss		
Total loss of reportable segments	(21,816,800)	(5,937,845)
Depreciation and amortisation	(766,296)	(250,669)
Fair value gain on derivative components of convertible bonds	397,565	—
Finance costs	(7,457,972)	(78,636)
Gain on disposals of fixed assets	4,025	—
Interest income	276,326	145,316
Other unallocated amounts	(17,050,864)	(7,971,432)
Consolidated loss before tax	(46,414,016)	(14,093,266)
Assets		
Total assets of reportable segment	855,546,078	484,481,660
Other unallocated amounts:		
Pledged bank deposits	3,811,658	3,352,704
Cash at bank and in hand	44,039,009	4,155,067
Others	4,503,365	577,506
Consolidated total assets	907,900,110	492,566,937
Liabilities		
Total liabilities of reportable segments	(65,316,871)	(11,769,867)
Other unallocated amounts:		
Bank loans, secured	(399,873,440)	(357,757,920)
Convertible bonds and derivative components of convertible bonds	(121,801,855)	—
Others	(2,022,134)	(3,648,467)
Consolidated total liabilities	(589,014,300)	(373,176,254)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING *(continued)*

(c) Geographical information

The following tables set out information about geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets, exploration and evaluation assets, mining deposit and goodwill ("specified non-current assets"). The geographical location of customers is based on the location at which the goods are delivered. The geographical location of the specific non-current assets is based on: (1) the physical location of the asset in case of property, plant and equipment; and (2) the location of the operations to which they are allocated, in case of intangible assets and goodwill.

	United States		Malaysia		Others*		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$
Turnover	**3,257,263**	—	**4,986,902**	—	**253,159**	—	**8,497,324**	—

* Others principally included Japan and Singapore.

	Hong Kong		Malaysia		Indonesia		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$
Specified non-current assets	**145,847**	178,125	**654,731,399**	477,973,660	**123,728,108**	—	**778,605,354**	478,151,785

(d) Revenue from major customers

	2010	2009
	HK$	HK$
Customer a	**4,805,750**	—
Customer b	**3,257,263**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 FIXED ASSETS

The Group

	Buildings	Construction in progress	Plant and machineries	Motor vehicles	Furniture and fittings	Office equipment	Computer equipment	Retorts	Sub-total	Interest in leasehold land held for own use under operating lease	Total
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
Cost:											
At 1 January 2009	–	219,608,720	–	882,238	229,570	–	–	–	220,720,528	13,140,017	233,860,545
Additions	–	231,367,005	–	–	235,892	18,792	71,669	–	231,693,358	–	231,693,358
Disposals	–	–	–	–	(108,269)	–	–	–	(108,269)	–	(108,269)
Exchange adjustments	–	9,411,203	–	11,132	3,821	–	–	–	9,426,156	165,794	9,591,950
At 31 December 2009	–	460,386,928	–	893,370	361,014	18,792	71,669	–	461,731,773	13,305,811	475,037,584
At 1 January 2010	–	460,386,928	–	893,370	361,014	18,792	71,669	–	461,731,773	13,305,811	475,037,584
Additions	375,514	106,901,198	8,057,425	2,066,971	5,384,183	3,250	9,992	–	122,798,533	–	122,798,533
Transfer	147,066,516	(620,093,594)	390,686,417	–	535,736	–	–	81,804,925	–	–	–
Disposals	–	–	–	(100,914)	–	–	–	–	(100,914)	–	(100,914)
Exchange adjustments	–	52,805,468	–	102,468	30,464	–	–	–	52,938,400	1,526,151	54,464,551
At 31 December 2010	147,442,030	–	398,743,842	2,961,895	6,311,397	22,042	81,661	81,804,925	637,367,792	14,831,962	652,199,754

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 FIXED ASSETS *(continued)*

The Group *(continued)*

	Buildings HK$	Construction in progress HK$	Plant and machineries HK$	Motor vehicles HK$	Furniture and fittings HK$	Office equipment HK$	Computer equipment HK$	Retorts HK$	Sub-total HK$	Interest in leasehold land held for own use under operating lease HK$	Total HK$
Accumulated depreciation and amortisation:											
At 1 January 2009	–	–	–	124,984	66,206	–	–	–	191,190	370,559	561,749
Charge for the year	–	–	–	86,845	30,493	419	5,192	–	122,949	127,720	250,669
Written back on disposals	–	–	–	–	(53,630)	–	–	–	(53,630)	–	(53,630)
Exchange adjustments	–	–	–	4,069	1,652	–	–	–	5,721	8,341	14,062
At 31 December 2009	–	–	–	215,898	44,721	419	5,192	–	266,230	506,620	772,850
At 1 January 2010	–	–	–	215,898	44,721	419	5,192	–	266,230	506,620	772,850
Charge for the year	8,234	–	–	164,668	230,569	2,096	24,049	–	429,616	140,182	569,798
Written back on disposals	–	–	–	(4,025)	–	–	–	–	(4,025)	–	(4,025)
Exchange adjustments	369	–	–	31,951	14,773	–	7	–	47,100	64,382	111,482
At 31 December 2010	8,603	–	–	408,492	290,063	2,515	29,248	–	738,921	711,184	1,450,105
Carrying amount:											
At 31 December 2010	147,433,427	–	398,743,842	2,553,403	6,021,334	19,527	52,413	81,804,925	636,628,871	14,120,778	650,749,649
At 31 December 2009	–	460,386,928	–	677,472	316,293	18,373	66,477	–	461,465,543	12,799,191	474,264,734

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 FIXED ASSETS *(continued)*

(a) Construction in progress of the Group comprised costs incurred on Perak Magnesium Smelter which was under construction at 31 December 2009.

(b) Buildings, retorts and interest in leasehold land held for own use under operating lease with an aggregate carrying amount of HK$243,359,130 (2009: construction in progress and interests in leasehold land held for own use under operating leases with aggregate carrying amount of HK$473,186,119) are pledged to banks for banking facilities granted to the Group as disclosed in note 27.

(c) The analysis of carrying amount of properties of the Group is as follows:

	2010	2009
	HK$	HK$
Interest in leasehold land held for own use under operating lease outside Hong Kong - long term	**14,120,778**	12,799,191

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 FIXED ASSETS *(continued)*

The Company

	Office equipment HK$	Furniture and fittings HK$	Computer equipment HK$	Total HK$
Cost:				
At 1 January 2009	—	—	—	—
Additions	18,792	95,418	71,669	185,879
At 31 December 2009	18,792	95,418	71,669	185,879
At 1 January 2010	18,792	95,418	71,669	185,879
Additions	3,250	—	—	3,250
At 31 December 2010	22,042	95,418	71,669	189,129
Accumulated depreciation:				
At 1 January 2009	—	—	—	—
Charge for the year	419	2,143	5,192	7,754
At 31 December 2009	419	2,143	5,192	7,754
At 1 January 2010	419	2,143	5,192	7,754
Charge for the year	2,096	9,542	23,890	35,528
At 31 December 2010	2,515	11,685	29,082	43,282
Carrying amount:				
At 31 December 2010	19,527	83,733	42,587	145,847
At 31 December 2009	18,373	93,275	66,477	178,125

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 FIXED ASSETS *(continued)*

(d) Fixed assets held under finance leases

The Group leases motor vehicles and equipment under finance leases expiring in 4 to 9 years. None of the leases includes contingent rentals. During the year, additions to motor vehicles, furniture and fittings of the Group financed by new finance leases were HK$4,122,725 (2009: HK$Nil). At 31 December 2010, the carrying amount of motor vehicles, furniture and fittings held under finance leases of the Group was HK$4,583,534 (2009: HK$677,472).

14 GOODWILL

	The Group HK$
Cost:	
At 1 January 2009, 31 December 2009 and 1 January 2010	—
Arising on acquisition of subsidiaries	120,479,667
At 31 December 2010	120,479,667
Carrying amount:	
At 31 December 2010	120,479,667
At 31 December 2009	—

The goodwill has arisen from the acquisition of a subsidiary during the year (see note 30).

For the purposes of impairment testing, goodwill has been allocated to the Group's cash-generating unit ("CGU") of exploration of iron ore, coal and manganese.

During the year ended 31 December 2010, the management of the Group determines that there is no impairment of the CGU containing goodwill.

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budget approved by management covering a 10-year period, and discount rate at 8.3%. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the management's expectations for the market development. Management believes that any reasonable possible change in any of these assumptions would not cause the aggregate carrying amount of CGU to exceed the aggregate recoverable amount of the CGU.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15 EXPLORATION AND EVALUATION ASSETS

	The Group
	HK$
Cost:	
At 1 January 2009	3,637,463
Exchange adjustments	45,896
At 31 December 2009	3,683,359
At 1 January 2010	3,683,359
Acquisition of subsidiaries (note 30)	2,292,714
Additions	946,032
Exchange adjustments	432,169
At 31 December 2010	7,354,274
Accumulated amortisation:	
At 1 January 2009, 31 December 2009 and 1 January 2010	—
Charge for the year	196,498
Exchange adjustments	8,793
At 31 December 2010	205,291
Carrying amount:	
At 31 December 2010	7,148,983
At 31 December 2009	3,683,359

(Expressed in Hong Kong dollars)

15 EXPLORATION AND EVALUATION ASSETS *(continued)*

CVMSB has undertaken various feasibility studies in relation to the mining and extraction of magnesium dolomite since 2004. On 15 June 2006, CVMSB entered into an agreement (the "Mining Agreement") with Harta Perak Corporation Sdn. Bhd. ("HPC"), a subsidiary of the Perak State Development Corporation ("PSDC"), a shareholder of the Company. Pursuant to the Mining Agreement, CVMSB has been granted, at no initial cost, an exclusive right to mine and extract magnesium dolomite from two pieces of land in the state of Perak, Malaysia (the "Dolomite Land") for a period of 20 years, with an option to renew for a further period of 10 years. The Mining Agreement can be early terminated by the Group by signing one month's written notice to HPC. CVMSB is required to pay royalties to HPC based on the volume of dolomite extracted, subject to a monthly minimum payment (see note 32(b)).

The amortisation charge for the year is included in "administrative expenses" in the consolidated income statement.

PT. Rimbaka Mining Makmur ("PT. RMM") and PT. Mega Fiume Internasional ("PT. MFI"), indirectly held subsidiaries of the Company, are undertaking various feasibility studies in relation to the mining and extraction of coal, iron ore and manganese. PT. RMM and PT. MFI have both upgraded their mining authorisation into exploration mining permit which must be obtained to conduct stages of general surveys, explorations and feasibility studies in Indonesia, pursuant to the Indonesian mining law. The mining authorisation has been granted by the local authorities in prior years. The exploration mining permit for (i) coal; and (ii) iron ore and manganese can be given for a maximum period of (i) 7; and (ii) 8 years respectively. Thereafter PT. RMM and PT. MFI are guaranteed to have production operation mining permits that must be obtained to undertake the production operation stage activity which may be valid for up to 20 years and may be extended 2 times, each time for 10 years.

16 MINING DEPOSIT

It represents a deposit of RM90,000 (equivalent to HK$227,055) at 31 December 2010 (2009: RM90,000 (equivalent to HK$203,692)) paid to HPC pursuant to the Mining Agreement (note 15) by the Group.

17 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2010	2009
	HK$	HK$
Unlisted shares, at cost	**198,633,636**	78,484,981
Amounts due from subsidiaries	**238,398,747**	56,069,788
	437,032,383	134,554,769

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

Details of the subsidiaries as at 31 December 2010 and 2009 are as follows:

Name of company	Place of incorporation and operation	Issued and paid up capital	Percentage of effective ownership interest				Principal activities	Note
			Direct		Indirect			
			2010	2009	**2010**	2009		
CVM Magnesium Sdn. Bhd. (formerly known as Commerce Venture Magnesium Sdn. Bhd.)	Malaysia	RM36,000,000	**100%**	100%	**—**	—	Mining of dolomite and manufacturing of magnesium ingots	(a)
CVM Metal Recycle Sdn. Bhd.	Malaysia	RM100,000	**60%**	—	**—**	—	Dormant	(a)
CVM International Limited (formerly known as Winner Top International Limited)	British Virgin Islands	US$10,000	**100%**	—	**—**	—	Investment holding	(a)
CVM Minerals Indonesia Sdn. Bhd. (formerly known as Platinum Goldhill Sdn. Bhd.)	Malaysia	RM10,000	**—**	—	**51%**	—	Investment holding	(a)
PT. Rimbaka Mining Makmur	The Republic of Indonesia	RPH75,000,000	**—**	—	**48.45%**	—	Exploration of iron ore	(b)
PT. Mega Fiume Internasional	The Republic of Indonesia	RPH250,000,000	**—**	—	**48.45%**	—	Exploration of coal	(b)

Note:

(a) Audited by Baker Tilly Monteiro Heng for the year.

(b) Audited by Johan Malonda Mustika & Rekan for the year.

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

18 INVENTORIES

Inventories in the statement of financial position comprise:

	The Group	
	2010	2009
	HK$	HK$
Raw materials	3,644,096	235,156
Work-in-progress	99,016	—
Finished goods	910,074	—
	4,653,186	235,156

19 TRADE RECEIVABLES

	The Group	
	2010	2009
	HK$	HK$
Trade receivables	8,795,408	—

(a) Ageing analysis

Included in the trade receivables are trade debtors with the following ageing analysis as of the end of the reporting period:

	The Group	
	2010	2009
	HK$	HK$
Neither past due nor impaired	8,795,408	—

Trade debtors are due within 15 days from the date of bill of lading for exports sales or date of invoice for local sales. Further details on the Group's credit policy are set out in note 31(b).

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(b) At 31 December 2010, trade receivables of HK$8,795,408 (2009: HK$Nil) are pledged as securities for banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Other receivables	**22,112,925**	3,976,110	**26,028**	10,430
Advance payment to a contractor	**39,800,331**	—	**—**	—
Government grant receivables	**949,437**	2,075,748	**—**	—
Deposits and prepayments	**5,084,463**	620,367	**4,254,360**	388,951
Amount due from a director	**48,339**	—	**48,339**	—
	67,995,495	6,672,225	**4,328,727**	399,381

Apart from the Group's deposits and prepayments of HK$2,430,150 as at 31 December 2010 (2009: HK$396,366), all of the Group's and the Company's prepayments, deposits and other receivables are expected to be recovered within one year.

Included in other receivables is an amount due from a staff, pursuant to section 161B of the Hong Kong Companies Ordinance, the disclosure is as follows:

Name	Term of loan	Balance at 31 December 2010 HK$	Balance at 1 January 2010 HK$	Maximum amount outstanding during the year HK$
Dato' Lim Hui Boon	Interest free, unsecured and with no fixed term of repayment	9,901	—	9,901

Amount due from a director disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

Name	Term of loan	Balance at 31 December 2010 HK$	Balance at 1 January 2010 HK$	Maximum amount outstanding during the year HK$
Chong Wee Chong	Interest free, unsecured and with no fixed term of repayment	48,339	—	48,339

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

21 PLEDGED DEPOSITS

The Group's deposits of HK$3,811,658 (2009: HK$3,352,704) are pledged to banks for loan facilities granted to the Group.

The Company's deposit of HK$3,784,248 (2009: HK$3,352,704) is pledged to a bank for a loan facility granted to CVMSB. The deposit is in Ringgit Malaysia and at interest rates of 2.16% to 2.78% per annum, and therefore is subject to foreign currency risk and fair value interest rate risk.

22 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$	HK$	**HK$**	HK$
Trade payables	**115,388**	—	**—**	—
Payables for construction in progress	**38,860,815**	—	**—**	—
Other payables and accrued expenses	**23,171,728**	4,717,040	**2,005,763**	2,906,161
	62,147,931	4,717,040	**2,005,763**	2,906,161

Included in trade payables are trade creditors with the following ageing analysis as of the end of the reporting period:

	The Group	
	2010	2009
	HK$	HK$
Current	**32,663**	—
Due within 3 months	**82,725**	—
	115,388	—

All of the above payables are expected to be settled within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

23 OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2010, the Group had obligations under finance leases repayable as follows:

	2010		2009	
	Present value of the minimum lease payments HK$	Total minimum lease payments HK$	Present value of the minimum lease payments HK$	Total minimum lease payments HK$
Within 1 year	907,296	1,134,760	86,629	111,949
After 1 year but within 2 years	969,885	1,134,760	91,091	111,951
After 2 years but within 5 years	1,958,073	2,126,850	290,424	326,301
After 5 years	268,727	279,600	134,671	139,450
	3,196,685	3,541,210	516,186	577,702
	4,103,981	4,675,970	602,815	689,651
Less: total future interest expense		(571,989)		(86,836)
Present value of lease obligations		4,103,981		602,815

24 BALANCES WITH RELATED PARTIES

The amounts are unsecured, interest-free and have no fixed terms of repayment.

25 AMOUNT DUE TO A DIRECTOR

The amount due was unsecured, interest-free and had no fixed terms of repayment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

26 CONVERTIBLE BONDS

On 20 August 2010, the Company entered into a placing agreement with a placing agent, Cinda, for the issue of a thirteen months 15% coupon convertible bond with a nominal value of HK$116,000,000. On 27 August 2010, the Company and Cinda entered into the supplemental agreement to amend the terms of the placing agreement so as to allow the placing to be completed by tranches and embed the cash settlement option to the convertible bonds.

The convertible bonds are convertible at the option of the holder into fully paid ordinary shares with a par value of HK$0.025 each of the Company on or after the draw down dates up to thirteen month of the respective draw down dates at an initial conversion price of HK$0.27 per share.

	Tranche 1	Tranche 2	Tranche 3
Draw down date	7 September 2010	27 September 2010	20 October 2010
Drawdown amount	HK$51,000,000	HK$50,000,000	HK$15,000,000

	Tranche 1 HK$	Tranche 2 HK$	Tranche 3 HK$	Total HK$
Liability component				
Balance as at drawdown date	48,360,900	47,629,875	14,190,554	110,181,329
Effective interest expenses payable for the year	3,128,355	2,488,364	582,701	6,199,420
At 31 December 2010	51,489,255	50,118,239	14,773,255	116,380,749
Conversion option derivative				
Balance as at drawdown date	2,639,100	2,370,125	809,446	5,818,671
Fair value gain for the year	(280,527)	(69,518)	(47,520)	(397,565)
At 31 December 2010	2,358,573	2,300,607	761,926	5,421,106

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

26 CONVERTIBLE BONDS *(continued)*

	Liability component HK$	Conversion option derivative HK$	Total HK$
Summary			
Convertible bonds issued during the year	110,181,329	5,818,671	116,000,000
Interest charged	6,199,420	—	6,199,420
Fair value gain for the year	—	(397,565)	(397,565)
At 31 December 2010	116,380,749	5,421,106	121,801,855

The estimate of the fair value of the conversion option derivative is measured based on the binomial model. Details of the assumptions of conversion option derivative are as follows:

	Tranche 1	
Date of valuation	**7 September 2010**	**31 December 2010**
Share price (HK$)	0.217	0.224
Conversion price (HK$)	0.270	0.270
Volatility	65.021%	54.097%
Maturity period	1.08 years	0.76 years
Conversion period	Within 1.08 years	Within 0.76 years
Risk free rate of interest	0.285%	0.326%

	Tranche 2	
Date of valuation	**27 September 2010**	**31 December 2010**
Share price (HK$)	0.220	0.224
Conversion price (HK$)	0.270	0.270
Volatility	65.264%	53.460%
Maturity period	1.08 years	0.82 years
Conversion period	Within 1.08 years	Within 0.82 years
Risk free rate of interest	0.307%	0.329%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

26 CONVERTIBLE BONDS *(continued)*

	Tranche 3	
Date of valuation	**20 October 2010**	**31 December 2010**
Share price (HK$)	0.247	0.224
Conversion price (HK$)	0.270	0.270
Volatility	65.417%	54.211%
Maturity period	1.08 years	0.88 years
Conversion period	Within 1.08 years	Within 0.88 years
Risk free rate of interest	0.399%	0.333%

The interest charged for the year is calculated by applying an effective interest rate with a range from 19.86 per cent to 20.53 per cent to the liability component for the six-month period.

The directors of the Company estimate the fair value of the liability component of the convertible bonds at 31 December 2010 to be approximately HK$126,553,000. This fair value has been calculated by discounting the future cash flows at the market rate.

27 BANK LOANS - SECURED

The Group

	2010			2009		
	Nominal value HK$	**Less: unamortised costs HK$**	**Total HK$**	Nominal value HK$	Less: unamortised costs HK$	Total HK$
Bank loans, secured	**403,661,568**	**(3,788,128)**	**399,873,440**	361,057,661	(3,299,741)	357,757,920

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

27 BANK LOANS - SECURED *(continued)*

At 31 December 2010, interest-bearing bank loans were due for repayment as follows:

	2010 HK$	2009 HK$
Portion of term loans due for repayment within one year	**261,118,236**	357,757,920
Term loans due for repayment after one year:		
After 1 year but within 2 years	**10,825,776**	—
After 2 years but within 5 years	**38,407,395**	—
After 5 years	**89,522,033**	—
	138,755,204	—
	399,873,440	357,757,920

The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignored the effect of any repayment on demand clause.

	2010 HK$	2009 HK$
Transaction costs		
Cost:		
At 1 January	**8,541,398**	7,721,288
Cost incurred during the year	**457,016**	820,110
Exchange adjustments	**979,683**	—
At 31 December	**9,978,097**	8,541,398
Accumulated amortisation:		
At 1 January	**(5,241,657)**	(910,464)
Amortisation for the year	**(347,104)**	(4,149,972)
Exchange adjustments	**(601,208)**	(181,221)
At 31 December	**(6,189,969)**	(5,241,657)
Unamortised transaction costs	**3,788,128**	3,299,741

27 BANK LOANS - SECURED *(continued)*

The secured bank loans as at 31 December 2010 are interest bearing at 8.3% per annum. These bank loans were restructured on 5 July 2010 by Bank Rakyat. In accordance with the restructured bank loan agreements, the Group is required to repay instalments totaling RM743,065 (equivalent to HK$1,874,628) commencing on or before 31 January 2011 and increasing to RM2,190,758 (equivalent to HK$5,526,914) commencing on or before 2 March 2011 to Bank Rakyat for the next 10 years.

The bank loans were granted to CVMSB and secured by way of:

(i) first party first legal charge over the land and factory building to be erected thereon held by CVMSB;

(ii) assignment of all off take proceeds of the customer;

(iii) debenture creating fixed and floating legal charge over all present and future assets of CVMSB excluding the performance bonds;

(iv) assignment of all CVMSB's rights, entitlement and interest in and to all building contracts, design drawings and other contracts pertaining to the magnesium ingot producing project (the "Project");

(v) assignment of all rights, benefits and interest under insurance undertaken by CVMSB as part of its operations for the Project;

(vi) assignment over the existing revenue accounts maintained at bank and monies standing to the credit of the revenue account in favour of the bank, the revenue account shall be operated solely by the bank;

(vii) a first fixed charge/assignment over the retorts of CVMSB;

(viii) assignment over the insurance policies of the retorts of CVMSB; and

(ix) any other securities as may be advised by the appointed legal counsel.

All of the Group's banking facilities are subject to the fulfilment of covenants, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group is required to comply with the covenants when CVMSB's step-up operation commences, which is expected to be in or around February 2011. Further details of the group's management of liquidity risk are set out in note 31(e). As at 31 December 2010, none of the covenants relating to the drawn down facilities had been breached (2009: HK$Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

28 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	Share capital HK$	Share premium HK$ *(note (c)(i))*	Other reserve HK$ *(note (c)(iii))*	Accumulated losses HK$	Total HK$
At 1 January 2009		45,100,000	68,090,412	33,925,000	(4,358,842)	142,756,570
Changes in equity for 2009:						
Total comprehensive expense for the year		—	—	—	(7,891,836)	(7,891,836)
At 31 December 2009		45,100,000	68,090,412	33,925,000	(12,250,678)	134,864,734
At 1 January 2010		**45,100,000**	**68,090,412**	**33,925,000**	**(12,250,678)**	**134,864,734**
Changes in equity for 2010:						
Total comprehensive expense for the year		—	—	—	**(21,875,495)**	**(21,875,495)**
Share issued pursuant to the share placing	28(b)	**9,000,000**	**116,996,696**	—	—	**125,996,696**
Share issued pursuant to the acquisition	28(b)	**8,888,889**	**86,520,955**	—	—	**95,409,844**
At 31 December 2010		**62,988,889**	**271,608,063**	**33,925,000**	**(34,126,173)**	**334,395,779**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

28 CAPITAL AND RESERVES *(continued)*

(b) Share capital

(i) Authorised and issued share capital

The Company

	Note	2010 Number of shares	2010 Amount HK$	2009 Number of shares	2009 Amount HK$
Authorised:					
At 1 January		4,800,000,000	120,000,000	1,200,000,000	120,000,000
Increase in authorised share capital	(ii)	5,200,000,000	130,000,000	—	—
Increase in authorised share capital pursuant to the share subdivision	(ii)	—	—	3,600,000,000	—
At 31 December		10,000,000,000	250,000,000	4,800,000,000	120,000,000
Issued and fully paid:					
At 1 January	(iii)	1,804,000,000	45,100,000	451,000,000	451,000,000
Shares issue pursuant to the share placing	(iii)	360,000,000	9,000,000	—	—
Shares issue pursuant to the acquisition	(iii)	355,555,556	8,888,889	—	—
Shares issue pursuant to the capital pursuant to the share subdivision	(iii)	—	—	1,353,000,000	—
At 31 December		2,519,555,556	62,988,889	1,804,000,000	45,100,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the Company's residual assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

28 CAPITAL AND RESERVES *(continued)*

(b) Share capital *(continued)*

(ii) Increase in authorised share capital

By an ordinary resolution passed at the extraordinary general meeting held on 16 October 2009, the entire authorised share capital of the Company was subdivided by the division of the nominal share capital of each ordinary share from HK$0.10 each to HK$0.025 each thereby increasing the number of authorised ordinary shares from 1,200,000,000 to 4,800,000,000.

By an ordinary resolution passed on 22 October 2010, the authorised ordinary share capital of the Company was increased to HK$250,000,000 by the creation of an additional 5,200,000,000 ordinary shares of HK$0.025 each, ranking pari passu with existing shares of the Company in all respects.

(iii) Issue of shares

By an ordinary resolution passed at the extraordinary general meeting held on 16 October 2009, the entire issued share capital of the Company was subdivided by the division of the nominal share capital of each ordinary share from HK$0.10 each to HK$0.025 each thereby increasing the number of issued ordinary shares from 451,000,000 to 1,804,000,000.

On 10 February 2010, 360,000,000 ordinary shares of HK$0.025 each were placed out at a price of HK$0.36 each. Proceeds of HK$9,000,000, representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$120,600,000, after the share expenses of HK$3,603,304, were credited to share premium.

On 9 November 2010, the Company issued 355,555,556 ordinary shares of HK$0.27 each to the then shareholders of CVM International Limited (formerly known as Winner Top International Limited) pursuant to the agreement for the sales and purchases of shares dated 30 July 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

28 CAPITAL AND RESERVES *(continued)*

(c) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by sections 48B and 49H of the Hong Kong Companies Ordinance.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(t).

(iii) Other reserve

The Group

Other reserve of the Group represents the reserve arising from the reverse acquisition on 14 October 2008.

On 14 October 2008, the Company acquired the entire issued and fully paid-up share capital of CVM Magnesium Sdn. Bhd. (formerly known as Commerce Venture Magnesium Sdn. Bhd.) ("CVMSB"), a company incorporated in Malaysia.

The consideration was satisfied by the allotment and issue of 338,249,999 new ordinary shares and the existing 1 share of the Company to the then shareholders of CVMSB, credited as fully paid at an issue price of HK$0.10 per new share.

The Company

Other reserve of the Company represents the difference between the value of shares of CVMSB acquired over the nominal value of the shares used by the Company as consideration for the reverse acquisition of 14 October 2008. The application of the other reserve is governed by section 48C of the Hong Kong Companies Ordinance.

(iv) Distributability reserve

At 31 December 2010, there were no realised profits available for distribution to equity holders of the Company (2009: HK$Nil).

28 CAPITAL AND RESERVES *(continued)*

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Group defines "capital" as including all components of equity and interest-bearing borrowings, less unaccrued proposed dividends. On this basis the amount of capital employed at 31 December 2010 was HK$844,664,927 (2009: HK$477,751,418).

The Group actively and regularly reviews and manages its capital structure to maintain a balance between higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Group is not subject to externally imposed capital requirements in either the current or prior years.

29 SHARE OPTION SCHEME

Pursuant to the written resolution passed on 14 October 2008, the Company adopted a share option scheme (the "Scheme") to (i) attract and retain the best quality personnel for the development of the Group's business; (ii) to provide additional incentives to the employees; (iii) to provide eligible persons with the opportunity to acquire proprietary interests in the Group; and (iv) to promote the long term financial success of the Group by aligning the interests of grantees to shareholders. The Scheme remains in force for a period of 10 years from the date of adoption of such scheme and will expire on 13 October 2018.

Under the Scheme, the Board of Directors of the Company (the "Directors") may at their discretion grant options to (i) Board of Directors or a duly authorised committee; or (ii) any person employed by the Company or any subsidiary; (iii) any consultant, adviser, supplier, customer or subcontractor of the Company or any other person determined by the Directors from time to time to subscribe for the shares of the Company (the "Shares").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 SHARE OPTION SCHEME *(continued)*

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per option. The maximum number of Shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company on the date of adopting the Scheme. The limit may be refreshed at any time provided that the new limit must not be in aggregate exceed 10% of the issued share capital of the Company as at the date of the shareholders' approval in general meeting. However, the total 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 scheme of the Company must not in aggregate exceed 10% of the shares in issue from time to time. The maximum number of Shares in respect of which options may be granted to any individual in any 12-month period shall not exceed 1% of the Shares in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Listing rules. Options granted to substantial shareholders or Independent Non-executive Directors in excess of issued share capital of the Company or with a value in excess of HK$5 million must be approved in advance by the shareholders of the Company.

Options granted may be exercised at any time from date of grant of the share option to the 10th anniversary of the date of grant as may be determined by the Directors. The exercise price is determined by the Directors, and will not be less than the higher of the closing price per share as stated in SEHK's daily quotations sheets on the date of the grant of the options, the average closing price per share as stated in the SEHK's daily quotations sheets for the five business days immediately preceding the date of the grant of the options, and the nominal value of a share.

No option was granted by the Company under the Scheme since its date of adoption.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30 ACQUISITION OF SUBSIDIARIES

To diversify the dolomite and magnesium business, on 30 July 2010, the Company entered into the conditional Sale and Purchase Agreement to purchase the 100% issued share capital of CVM International Limited (formerly known as Winner Top International Limited) ("CVM International") and its subsidiaries, for an aggregate consideration of HK$120,000,000 to be satisfied by HK$24,000,000 cash and HK$96,000,000 by an issue and allotment of 355,555,556 new shares of HK$0.025 each of the Company, at HK$0.27 per share (note 28(b)(iii)).

The acquired business contributed nil revenues and net loss of HK$853,440 to the Group for the period from 8 November 2010 to 31 December 2010. If the acquisition had occurred on 1 January 2010, the Group's revenue and loss before taxation would remain unchanged. These amounts have been calculated using the Group's accounting policies and by assuming the control dates of the subsidiaries being held by CVM International remain unchanged.

The above transactions were approved by the members of the Company on the extraordinary general meeting held on 22 October 2010. The effective date of the acquisition was 8 November 2010.

	Acquirees' carrying amount and provisional fair value at acquisition date HK$
Net assets acquired:	
Exploration and evaluation assets (note 15)	2,292,714
Goodwill	554,958
Prepayments, deposits and other receivables	311,417
Cash at bank and in hand	74,727
Other payables and accruals	(3,164,824)
	68,992
Non-controlling interests	11,810
Goodwill	119,919,198
Total consideration	120,000,000
Satisfied by:	
Cash paid	24,000,000
Share consideration, at fair value	96,000,000
	120,000,000
Net cash outflow arising on acquisition:	
Cash consideration paid	(24,000,000)
Bank balances and cash acquired	74,727
	(23,925,273)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

30 ACQUISITION OF SUBSIDIARIES *(continued)*

Goodwill arising on the above acquisition during the year is determined on a provisional basis as the nature and fair value of the identified assets acquired can be determined on a provisional value only. The Company is in process of obtaining independent valuation to access the fair value. It may be adjusted upon the completion of the initial accounting.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(a) Financial risk management objectives and policies

Management has adopted certain policies on financial risk management with objectives of:

(i) ensuring that appropriate funding strategies are adopted to meet the Group's short term and long term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections of each project; and

(ii) ensuring that appropriate strategies are also adopted to manage related interest and currency risk.

(b) Credit risk

The Group's and the Company's credit risk are primarily attributable to cash and cash equivalents, trade receivables, prepayments, deposits and other receivables. The exposure to this credit risk is monitored by management on an ongoing basis and management do not expect any counterparty to fail to meet its obligations.

Cash and cash equivalents are placed at financial institutions that have sound credit rating.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 15 days from the date of bill of lading for export sales or date of invoice for local sales. Debtors with balances that are more than 6 months past due are requested to settle all outstanding balances before any further credit is granted. Normally the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of reporting period, 57% (2009: Nil) of the trade receivables was due from the Group's largest customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(b) Credit risk *(continued)*

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the statement of financial position. Except for the financial guarantees given by the Group as set out in note 33, the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to the credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 33.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 19.

(c) Foreign currency risk

The Group is exposed to foreign currency risk through trade receivables and payables that are denominated in currencies other than the functional currency of the operations to which the transactions relate.

(i) Exposure to currency risk

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the relevant subsidiaries. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at year end date:

Exposure to foreign currencies (expressed in Hong Kong dollars)

	2010		2009	
	Ringgit Malaysia HK$	United States Dollars HK$	Ringgit Malaysia HK$	United States Dollars HK$
The Group				
Payables for construction in progress	—	(38,860,815)	—	—
Pledged deposits	3,784,248	—	3,352,704	—
Trade receivables	—	8,795,408	—	—
	3,784,248	(30,065,407)	3,352,704	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(c) Foreign currency risk *(continued)*

(i) Exposure to currency risk (continued)

	2010 Ringgit Malaysia HK$	2009 Ringgit Malaysia HK$
The Company		
Pledged deposits	3,784,248	3,352,704

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's loss after tax and accumulated losses in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period, assuming all other variable risk variables remained constant. Other components of the equity would not be affected by changes in the foreign exchange rate:

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	**Decrease/ (increase) in loss after tax and accumulated losses HK$**	Increase/ (decrease) in foreign exchange rates	Decrease/ (increase) in loss after tax and accumulated losses HK$
United States Dollars	5%	(1,503,270)	—	—
	(5%)	1,503,270	—	—
Ringgit Malaysia	5%	189,212	5%	167,635
	(5%)	(189,212)	(5%)	(167,635)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(c) Foreign currency risk *(continued)*

(ii) Sensitivity analysis (continued)

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of the foreign operations into the Group's presentation currency. The analysis is performed on the same analysis for 2009.

In addition, the operations of the Company's investments in Malaysia and the Republic of Indonesia are mainly transacted in Ringgit Malaysia ("RM") and Rupiah ("RPH") respectively. Any distributions from these investments in RM and RPH may expose the Company to a certain degree of risk resulting from fluctuation in these currencies against the Hong Kong dollars.

(d) Interest rate risk

The Group's interest rate risk arises primarily from bank loans and convertible bonds. Borrowings issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period.

	2010		2009	
	Effective interest rate	**Amount HK$**	Effective interest rate	Amount HK$
Variable rate borrowings:				
- Secured bank loans	**7.6% - 8.3%**	**399,873,440**	7.6% - 9.3%	357,757,920
Fixed rate borrowings:				
- Obligations under finance leases	**2.4% - 3.6%**	**4,103,981**	2.4% -2.5%	602,815
- Convertible bonds	**15%**	**121,801,855**	N/A	—
		525,779,276		358,360,735

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(d) Interest rate risk *(continued)*

Sensitivity analysis

At 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's loss before tax and combined equity by approximately HK$5,257,800 (2009: HK$3,583,600).

The sensitivity analysis above indicates instantaneous change in the Group's loss after tax (and accumulated losses) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flows interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's loss after tax (and accumulated losses) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(e) Liquidity risk

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations as and when they fall due and on its ability to obtain external financing for its committed future capital expenditures.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay:

		2010 Contracted undiscounted cash flow				
	Carrying amount at 31 December HK$	Total HK$	Within 1 year or on demand HK$	More than 1 year but less than 2 years HK$	More than 2 years but less than 5 years HK$	More than 5 years HK$
The Group						
Convertible bonds	121,801,855	134,850,000	134,850,000	—	—	—
Secured bank loans*	399,873,440	655,925,056	59,018,391	66,322,963	198,968,888	331,614,814
Obligations under finance leases	4,103,981	4,675,970	1,134,760	1,134,760	2,126,850	279,600
Trade and other payables	62,147,931	62,147,931	62,147,931	—	—	—
Amounts due to related parties	1,087,093	1,087,093	1,087,093	—	—	—
	589,014,300	858,686,050	258,238,175	67,457,723	201,095,738	331,894,414

* The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(e) Liquidity risk *(continued)*

		2009 Contracted undiscounted cash flow				
	Carrying amount at 31 December HK$	Total HK$	Within 1 year or on demand HK$	More than 1 year but less than 2 years HK$	More than 2 years but less than 5 years HK$	More than 5 years HK$
The Group						
Secured bank loans	357,757,920	418,464,718	418,464,718	—	—	—
Obligations under finance leases	602,815	689,651	111,949	111,951	326,301	139,450
Trade and other payables	4,717,040	4,717,040	4,717,040	—	—	—
Amounts due to related parties	7,092,930	7,092,930	7,092,930	—	—	—
Amount due to a director	3,005,549	3,005,548	3,005,548	—	—	—
	373,176,254	433,969,887	433,392,185	111,951	326,301	139,450

		2010 Contracted undiscounted cash flow				
	Carrying amount at 31 December HK$	Total HK$	Within 1 year HK$	More than 1 year but less than 2 years HK$	More than 2 years but less than 5 years HK$	More than 5 years HK$
The Company						
Convertible bonds	121,801,855	134,850,000	134,850,000	—	—	—
Trade and other payables	2,005,763	2,005,763	2,005,763	—	—	—
	123,807,618	136,855,763	136,855,763	—	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(e) Liquidity risk *(continued)*

		2009 Contracted undiscounted cash flow				
	Carrying amount at 31 December HK$	Total HK$	Within 1 year HK$	More than 1 year but less than 2 years HK$	More than 2 years but less than 5 years HK$	More than 5 years HK$
The Company						
Trade and other payables	2,906,161	2,906,161	2,906,161	—	—	—
Amount due to a director	742,306	742,306	742,306	—	—	—
	3,648,467	3,648,467	3,648,467	—	—	—

As discussed in note 2(b), the directors of the Company consider that the available banking facilities and the net proceeds from the new placing are adequate to meet the Group's and the Company's financial obligations as and when they fall due.

(f) Categories of financial instruments

	The Group 2010 HK$	The Group 2009 HK$	The Company 2010 HK$	The Company 2009 HK$
Financial assets				
Loans and receivables (including trade and other receivables)	**120,641,570**	14,179,996	**17,025,167**	3,780,307
Financial liabilities				
Financial liabilities at amortised cost (including trade and other payables)	**583,593,194**	373,176,254	**118,386,512**	3,648,467
Financial liabilities at fair value through profit and loss	**5,421,106**	—	**5,421,106**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(g) Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measure using quoted prices (unadjusted) in active markets for identical financial instruments.

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

2010

	The Group and the Company			
	Level 1	Level 2	Level 3	Total
	HK$	HK$	HK$	HK$
Liabilities				
Derivative components of convertible bonds	—	—	5,421,106	5,421,106

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(continued)*

(g) Fair values *(continued)*

(i) Financial instruments carried at fair value (continued)

The movement during the year in the balance of Level 3 fair value measurements is as follows:

	The Group and the Company HK$
Conversion option embedded in convertible bonds:	
Convertible bonds issued during the year	5,818,671
Changes in the fair value recognised in profit or loss during the year	(397,565)
At 31 December 2010	5,421,106
Total gain for the year included in profit or loss for assets held at the end of the reporting period	397,565

(ii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair value as at 31 December 2010 and 2009.

32 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding as at 31 December 2010 not provided for in the financial statements were as follows:

	2010 HK$	2009 HK$
Contracted for	**25,001,261**	31,828,111
Authorised but not contracted for	**—**	—
	25,001,261	31,828,111

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

32 COMMITMENTS *(continued)*

(b) Future minimum royalty payments

Pursuant to the Mining Agreement (note 15), the royalties to HPC are subject to a monthly minimum payment of RM30,000 (equivalent to HK$72,443) (2009: RM30,000 (equivalent to HK$66,002)) for a period of 20 years, unless early terminated by the Group by giving one month's written notice to HPC. The total minimum royalties amounted to RM6,660,000 (equivalent to HK$16,082,373) (2009: RM7,020,000 (equivalent to HK$15,444,702)) over the 20 year period.

(c) Operating lease commitments

At 31 December 2010, the total minimum lease payments under non-cancellable operating leases are payable as follows:

	2010	2009
	HK$	HK$
Within 1 year	**669,318**	993,732
After 1 year but within 5 years	**111,005**	602,715
	780,323	1,596,447

The Group is the lessee in respect of office premises held under operating leases. The leases typically run for an initial period of one year, with an option to renew the lease when all terms are renegotiated. The leases do not include contingent rental.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

32 COMMITMENTS *(continued)*

(d) Environmental contingencies

To date, the Group has not incurred any significant expenditures for environment remediation and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Laws and regulations protecting the environment have generally become more stringent in recent years and could become more stringent in the future. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include:

(i) the exact nature and extent of the contamination at the mines and processing plants;

(ii) the extent of required cleanup efforts;

(iii) varying costs of alternative remediation strategies;

(iv) changes in environmental remediation requirements; and

(v) the identification of new remediation sites.

The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed for future environmental legislation cannot be reasonably estimated at present and could be material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

33 CONTINGENT LIABILITIES

Corporate guarantee issued

As at 31 December 2010, the Company has issued corporate guarantees totalling RM300,223,302 (equivalent to HK$757,412,841) (2009: RM172,600,000 (equivalent to HK$390,628,320)) to banks in respect of bank loan facilities granted to CVMSB.

The directors of the Company do not consider it probable that a claim will be made against the Company under the corporate guarantees. The maximum liability of the Company at 31 December 2010 under the corporate guarantees issued is RM160,003,373 (equivalent to HK$403,661,569 (2009: RM155,051,735 (equivalent to HK$350,913,087)).

In addition, as at 31 December 2010, the Company has issued a corporate guarantee totalling RM850,000 (equivalent to HK$2,144,407) (2009: RM850,000 (equivalent to HK$1,923,720) to a supplier in respect of the purchase of liquefied petroleum gas made by CVMSB.

As at 31 December 2010, the Company has issued corporate guarantees totalling RM1,489,460 (equivalent to HK$3,757,657) (2009: HK$Nil) for finance lease creditors in respect of the purchase of motor vehicles, furniture and fittings by CVMSB.

The Company has not recognised any deferred income in respect of the corporate guarantees as its fair value cannot be reliably measured and its transaction price was HK$Nil.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

34 MATERIAL RELATED PARTY TRANSACTIONS

During the years ended 31 December 2010 and 2009, in addition to the transactions and balances disclosed in notes 15, 16, 20, 24 and 25, the following related party transactions took place between the Group and related parties on terms mutually agreed by the parties concerned.

Name of party	Relationship
Ho Wah Genting Berhad ("HWGB")	Shareholder of the Company
Ho Wah Genting Poipet Resorts Sdn. Bhd. ("HWGP")	Associate of HWGB
HWG Tin Mining Sdn. Bhd. ("HWGTM")	Subsidiary of HWGB
Perak State Development Corporation ("PSDC")	Shareholder of the Company
Harta Perak Corporation Sdn. Bhd. ("HPC")	Subsidiary of PSDC
Mr. Chong Wee Chong	Director of the Company

Particulars of significant transactions between the Group and the above related parties are as follows:

(a) Recurring transactions

	2010 HK$	2009 HK$
Rent payable to:		
HWGB	**202,841**	184,808
Secretarial fees payable to:		
HWGB	**14,489**	39,602
Purchase of flight tickets from:		
HWGP	**1,107,852**	482,524
Maintenance fee payable to:		
HPC	**905,539**	666,630

(b) Non-recurring transactions

	2010 HK$	2009 HK$
Purchase of a motor vehicle from:		
HWGB	**759,687**	—
Disposal of a motor vehicle to:		
HWGTM	**96,591**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

34 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) Amount due from a director

	2010 HK$	2009 HK$
Chong Wee Chong	**48,339**	—

The amount is unsecured, interest free and has no fixed terms of repayment.

(d) Amount due from a staff

	2010 HK$	2009 HK$
Dato' Lim Hui Boon	**9,901**	—

The amount is unsecured, interest free and has no fixed terms of repayment.

(e) Amounts due to related parties

	2010 HK$	2009 HK$
HWGB	**656,110**	6,789,727
HPC	**310,308**	208,784
HWGP	**120,675**	94,419
	1,087,093	7,092,930

The amounts are unsecured, interest free and have no fixed terms of repayment.

(f) Amount due to a director

	2010 HK$	2009 HK$
Lim Ooi Hong	—	3,005,549

The amount was unsecured, interest free and had no fixed terms of repayment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(g) Key management personnel remuneration

	2010 HK$	2009 HK$
Directors' fees	**680,139**	998,377
Salaries, allowances and benefits in kind	**2,606,400**	1,083,536
Discretionary bonus	**—**	—
Retirement scheme contributions	**141,653**	110,885
	3,428,192	2,192,798

35 NON-ADJUSTING AFTER THE REPORTING PERIOD EVENTS

(a) Raising of funds

On 28 January 2011, the Company entered into a conditional share placing agreement with UOB Kay Hian pursuant to which UOB Kay Hian agreed to place up to 340,000,000 new shares at the price of HK$0.228 per share. The Company also entered into a conditional warrant placing agreement with UOB Kay Hian pursuant to which UOB Kay Hian agreed to place 163,900,000 warrants at the price of HK$0.005 per warrant, which has conferred rights to subscribe for 163,900,000 new shares at the warrant exercise price of HK$0.27 per share.

The net proceeds from the above placing and subsequent exercise of all the warrants are estimated to be approximately HK$76.0 million and HK$43.2 million respectively, which will be used for general working capital of the Group.

(b) Loan drawn down

On 24 January 2011, the balance of the KFHMB banking facility of RM15.0 million (equivalent to HK$37.8 million) was drawn down. The aggregate value of short term bank loan from KFHMB of RM115.0 million (equivalent to HK$290.1 million) and accrued bank guarantee commission of RM2.8 million (equivalent to HK$7.1 million) was fully converted into a ten-year term loan of RM117.8 million (equivalent to HK$297.2 million) provided by Bank Rakyat on 2 February 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

35 NON-ADJUSTING AFTER THE REPORTING PERIOD EVENTS *(continued)*

(c) Acquisition of a subsidiary

To diversify the dolomite and magnesium business and to explore other minerals-related business investment opportunities, on 23 February 2011, an agreement (the "Agreement") was entered into between the Company, Mr. Teoh Tek Siong and United Fortune Enterprises Limited (the "Vendors"), pursuant to which the Company has conditionally agreed to purchase and the Vendors have conditionally agreed to sell the 51% of entire issued share capital of Step Pacific Development Limited ("Step Pacific") for the consideration of HK$220,000,000, which shall be satisfied by the payment of deposit in the sum of HK$11,000,000 to the Vendors upon signing the Agreement and by the issue of an aggregate of 653,125,000 ordinary shares to the Vendors.

Step Pacific is a company incorporated in the British Virgin Islands with limited liability, whose principal business activity is investment holding. Step Pacific holds 100% equity interest of Stabil Megamas Sdn. Bhd., which in turn holds 75% of the issued share capital of PT. Laksbang Mediatama ("PT. LM"). PT. LM is the holder of an exploration mining permit for the exploration of manganese in Indonesia for a period of 1 year from 6 March 2010.

The acquisition has yet to be completed since the condition precedents have not been fulfilled.

36 ACCOUNTING JUDGEMENTS AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

Useful lives of property, plant and equipment

Management determines the estimated useful lives of and related depreciation charges for its property, plant and equipment. This estimate is based on the actual useful lives of assets of similar nature and functions. It could change significantly as a result of significant technical innovations and competitor actions in response to industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

36 ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Impairment of assets

The Group reviews the carrying amounts of the assets at the end of each reporting date to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cashflow to assess the differences between the carrying amount and value in use and provided for impairment loss. In determining the value in use of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the end of the reporting date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rate used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on the expectations of future events and are reviewed periodically. Any change in the assumptions adopted in the cash flow forecasts would increase or decrease in the provision of the impairment loss and affect the Group's net asset value.

An increase or decrease in the above impairment loss would affect the net profit in future years.

(ii) Going concern basis

Management makes an assessment of the Group's ability to continue as a going concern when preparing the consolidated financial statements. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, two years from the end of the reporting period. The degree of consideration depends on the facts in each case.

The Group is dependent upon the commencement of operation of the Smelter to meet the Group's future working capital and financing requirements. Management believes that the Group is able to continue as a going concern after taking into account the expected commencement of operation of the Smelter in or around February 2011, the available banking facilities granted by certain banks and the net proceeds of HK$119.2 million raised from the placing as detailed in note 2(b) and note 35. Accordingly, management has prepared the consolidated financial statements on a going concern basis. An adverse change in any of the above conditions would require the financial statements to be prepared on an alternative authoritative basis and such basis, together with the fact that the consolidated financial statements is not prepared on a going concern basis, would need to be disclosed. If the Group was unable to continue as a going concern, adjustments relating to the recoverability and classification of recorded asset amounts or classification of liabilities may need to be incorporated into the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

36 ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

(b) Sources of estimation uncertainty *(continued)*

Key sources of estimation uncertainty are as follows: (continued)

(iii) Fair value of derivative components of convertible bonds

Convertible bonds of the Group are presented into the derivative components and the liability component. This requires an initial recognition of the derivative components at its fair value and subsequent measurement at fair value determined by an option pricing model.

In assessing the fair value of the derivative components of convertible bonds, the Binomial Model was used. The Binomial Model is one of the generally accepted methodologies used to calculate the fair value of the derivative components of convertible bonds. The Binomial Model requires the input of subjective assumptions, including the expected dividend yield. Any changes in these assumptions can significantly affect the estimate of the fair value of the derivative components of the convertible bonds.

(iv) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value used in the calculation requires the Group to estimate the future cash flows expected to arise from cash-generated unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2010, the carrying amount of goodwill is HK$120,479,667. Details of the recoverable amount calculated are disclosed in note 14.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

37 POSSIBLE IMPACT OF NEW AND REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of the financial statements, the HKICPA has issued a number of new and revised standards and Interpretations which are not yet effective for the year ended 31 December 2010 and which have not been adopted in the consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKAS 24 (Revised 2009), Related party disclosures	1 January 2011
HKFRS 9, Financial Instruments	1 January 2013
Improvements to HKFRSs 2010 except for the amendments to HKFRSs (Revised 2008) HKAS 1 and HKAS 28	1 July 2010 or 1 January 2011 as appropriate
Amendments to HKAS 12, Income taxes	1 January 2012
HK (IFRIC) –Int 19, Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Amendments to HK (IFRIC)-Int 14, Prepayments of a Minimum Funding Requirement	1 January 2011
Amendments to HKAS 32, Classification of Rights Issues	1 February 2010
Amendments to HKFRS 7, Disclosure-transfers of Financial Assets	1 July 2011

The Group is in the process of making an assessment of the impact of these amendments, which are expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's or the Company's results of operations and financial position.