THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Sino Prosper State Gold Resources Holdings Limited**, you should at once hand this circular together with the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

SINO PROSPER STATE GOLD RESOURCES HOLDINGS LIMITED
中盈國金資源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 766)

MAJOR TRANSACTION

Financial adviser

信達國際融資有限公司
CINDA INTERNATIONAL CAPITAL LIMITED

A notice convening an EGM to be held at Units 1702-04, 17/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong on Thursday, 17 June 2010 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend the EGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the share registrar of the Company, Tricor Secretaries Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or at any adjourned meeting thereof and, in such event, the relevant form of proxy shall be deemed to be revoked.

31 May 2010

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In this circular, unless the context otherwise requires, the following terms or expressions shall have the meanings set out below:

"Acquisition"	the acquisition of the Sale Share and the Sale Loan pursuant to the terms and conditions of the Acquisition Agreement
"Acquisition Agreement"	the agreement dated 23 January 2010 and entered into between the Purchaser and the Vendor in respect of the Acquisition
"Announcement"	the announcement of the Company dated 25 January 2010 in relation to, among others, the Acquisition
"associates"	has the meaning ascribed thereto in the Listing Rules
"Board"	the board of Directors
"Bondholder(s)"	the holder(s) of the Convertible Bonds
"business day"	any day (other than a Saturday or Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
"BVI"	the British Virgin Islands
"Company"	Sino Prosper State Gold Resources Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement
"Completion Date"	the date of Completion, being the date falling five business days after all the conditions of the Acquisition Agreement have been fulfilled or waived or such later date as may be agreed between the Vendor and the Purchaser
"connected person(s)"	has the meaning ascribed thereto in the Listing Rules
"Consideration"	the consideration for the Acquisition, being RMB147,000,000 (equivalent to approximately HK$167,045,454) (subject to adjustment)
"Directors"	directors of the Company

"EGM"	the extraordinary general meeting of the Company to be convened and to be held at Units 1702-04, 17/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong at 10:00 a.m. (or thereabout as mentioned in the notice of meeting set out on pages EGM-1 to EGM-2 of this circular) on Thursday, 17 June 2010 to consider and, if thought fit, approve, among other things, the Acquisition Agreement and the transaction contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Acquisition
"Framework Agreement"	A framework agreement entered into between Sino Prosper Mineral, the PRC Company and the existing shareholder of PRC Company on 13 October 2009 in relation to the Proposed Investment
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party"	a person who is not a connected person of the Company and is independent of and not connected with the Company and its connected persons
"Latest Practicable Date"	28 May 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mining Permit"	the mining permit granted by the Department of Land and Resources, Inner Mongolia Autonomous Region, the PRC to the PRC Company for the mining of gold resources which is valid from 31 May 2009 to 31 May 2012
"PRC"	the People's Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Company"	Ao Han Qi Xin Rui En Mineral Industry Co., Ltd.* (敖漢旗鑫瑞恩礦業有限責任公司), a limited liability company established in the PRC and in process to become a sino-foreign joint venture established under the PRC laws
"Proposed Investment"	the proposed investment by the Group in not less than 70% shareholding in the PRC Company, subject to the signing (and completion) of a formal investment agreement

"Purchaser" or "Sino Prosper Mineral"	Sino Prosper Mineral Products Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company and the purchaser named under the Acquisition Agreement
"Sale Loan"	all obligations, liabilities and debts owing or incurred by Target BVI to the Vendor on or at any time prior to the Completion whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Acquisition Completion and as at the date of the Acquisition Agreement, amounted to HK$1.11 million
"Sale Share"	one ordinary share having a nominal value of US$1 in the issued share capital of Target BVI, representing the entire issued share capital of Target BVI
"Share(s)"	existing ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target BVI"	Favour South Limited, a company incorporated in the BVI, and at as the Latest Practicable Date, wholly and beneficially owned by the Vendor
"Target BVI Group"	together with Target BVI and Target HK
"Target HK"	Great Surplus Investment Limited, a company incorporated in Hong Kong and as at the Latest Practicable Date, wholly and beneficially owned by Target BVI
"Target Group"	together with Target BVI, Target HK and the PRC Company
"Target Mine"	the mining area of approximately 2.0732 sq. km. of mining site located at Gouliang Town, Aohanqi, Inner Mongolia Autonomous Region, the PRC * (中國內蒙古自治區敖漢旗溝梁鎮)

"Vendor"	Hong Guang* (洪光), to the best knowledge, information and belief of the Directors and having made all reasonable enquiries, is Independent Third Party
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States of America
"sq. km."	square kilometres
"%"	per cent.

For the purpose of this circular, unless otherwise specified, conversions of RMB into Hong Kong dollars are based on the approximate exchange rate of RMB0.88 to HK$1.0.

* *the English translation of the Chinese name is for information purposes only, and should not be regarded as the official English translation of such name.*

SINO PROSPER STATE GOLD RESOURCES HOLDINGS LIMITED
中盈國金資源控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 766)

Executive Directors:
Leung Ngai Man
Sung Kin Man
Yeung Kit
Wong Wa Tak
Ng Kwok Chu, Winfield

Independent non-executive Directors:
Chan Sing Fai
Cai Wei Lun
Leung Wai Cheung

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

Principal place of business in Hong Kong:
Units 1702-04, 17/F
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

31 May 2010

To the Shareholders

Dear Sir/Madam,

MAJOR TRANSACTION

INTRODUCTION

Reference is made to the Announcement in which the Company announced that, on 25 January 2010, the Purchaser and the Vendor entered into the Acquisition Agreement pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of: (i) the Sale Share (being the entire issued share capital of Target BVI); and (ii) the Sale Loan, at a total consideration of RMB147,000,000 (equivalent to approximately HK$167,045,454) (subject to adjustment).

Upon Completion, Target BVI will become an indirect wholly-owned subsidiary of the Company and its consolidated accounts will be consolidated with that of the Group.

The purpose of this circular is to provide you, (i) further details in respect of the Acquisition, and other information of the Group; (ii) financial information of the Target Group; (iii) technical report on the Target Mine; (iv) valuation report on the Target Mine; and (v) the notice of the EGM.

THE ACQUISITION AGREEMENT

Date: 23 January 2010

Parties:

Purchaser: Sino Prosper Mineral Products Limited, a wholly-owned subsidiary of the Company and an investment holding company

Vendor: Hong Guang* (洪光)

To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the Vendor is Independent Third Party.

Assets to be acquired

Pursuant to the Acquisition Agreement, the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Share (being the entire issued share capital of Target BVI) and the Sale Loan.

Consideration

Pursuant to the terms of the Acquisition Agreement, the Consideration of RMB147,000,000 (equivalent to approximately HK$167,045,454) (subject to adjustment) shall be settled in the following manner:

(i) HK$3,000,000 has been paid within three business days after the entering into the Acquisition Agreement by the Purchaser by way of cashier order (or other payment method agreed by both parties) to the Vendor (or other person nominated by the Vendor in writing) together with the RMB1 million deposit already paid by the Vendor to the PRC Company (or such other designated person) at the time of entering into the Framework Agreement which totaling RMB3,640,000 (equivalent to approximately HK$4,136,364). The Vendor must apply the said deposit as shareholder's loan to Target BVI (then through Target HK) to inject into the PRC Company as registered capital;

(ii) HK$131,090,908 (part of the Consideration) shall be paid upon Completion by the Purchaser by way of cashier order (or bank transfer, or other payment method agreed by both parties) to the Vendor (or other person nominated by the Vendor in writing). The Vendor must apply HK$4,954,545 (equivalent to approximately RMB4,360,000) out of the Consideration as shareholder's loan to Target BVI (then through Target HK) to inject into the PRC Company as registered capital; and

(iii) HK$31,818,182 shall be paid by the Purchaser to the Vendor by way of cashier order (or bank transfer, or other payment method agreed by both parties) after Completion and within 10 business days after obtaining the approvals relating to the change of the directors and the legal representative of the PRC Company from the relevant PRC governmental department(s), the registration of particulars contained in the business licence issued by the Administration for Industry and Commerce (which licence states the paid-up capital of the PRC Company to be RMB10,000,000) and the approval obtained from the Department of Commerce of Inner Mongolia Autonomous Region to increase the registered capital of the PRC Company to RMB50,000,000.

In the event that the amount of the Sale Loan comparing with the Consideration is: (a) smaller, the consideration of the Sale Loan should be equivalent to its face value and the consideration of the Sale Share should be equivalent to the Consideration minus the consideration of the Sale Loan; or (b) bigger, the consideration of the Sale Share should be RMB1 and the consideration of the Sale Loan should be equivalent to the amount of the Consideration minus RMB1.

Under the Acquisition Agreement, the Vendor and the Purchaser have agreed to adopt the exchange rate of RMB0.88 to HK$1.00 for the purpose of determining the amount of Consideration to be settled in Hong Kong dollars.

The Consideration was determined by the Vendor and the Purchaser on the basis of normal commercial terms and arm's length negotiations by reference to, inter alia: (i) the opportunity for the Group to gain further access to the precious metals market in the PRC and to broaden the income base of the Group; (ii) the growth potential of the business of the PRC Company; and (iii) based on a preliminary report provided by an independent valuer, Norton Appraisals Limited, the valuation for the mining rights of Target Mine as at 5 January 2010 was RMB820 million (equivalent to approximately HK$932 million), such preliminary valuation is subject to, among other matters, further physical inspection by the valuer and the valuer's formal valuation report. As set out in the formal valuation report issued by Norton Appraisals Limited which is included in Appendix V to this circular, the valuation of the Target Mine as at 31 March 2010 amounted to RMB1,000 million (equivalent to approximately HK$1,136 million).

Under the Acquisition Agreement, the initial Consideration of RMB147,000,000 is subject to adjustment. In the event that the gold resources in Target Mine indicated in the mining report prepared by the mining adviser designated by the Purchaser to be less than 10 tonnes, i.e. condition numbered (h) under the section headed "Conditions Precedent" of this circular, the Purchaser has the right (but not obliged) to refuse to proceed to the Completion, and the Purchaser and the Vendor may further negotiate to re-determine the Consideration. The Group has appointed SRK Consulting China Ltd ("SRK"). to prepare a relevant technical report including, but not limited to the gold resources in the Target Mine. In addition, it is anticipated by both parties that Target HK will have injected a total amount of RMB7,000,000 ("**Committed Registered Capital**") into the PRC Company as registered capital up to the time of Completion. Should the Committed Registered Capital or any part thereof remain unpaid by Target HK by the time of Completion, the Purchaser shall have the right to withhold the Committed Registered Capital or any part thereof from the Consideration and shall only be responsible for payment of the balance of the Consideration.

According to the technical report prepared by SRK as set out in Appendix IV of this circular, the gold ore resources of the Target Mine is equal to a total of 1,888,498 tonnes, which comprises of (i) 337,838 tonnes of 122b category (indicated resources) (containing metal gold resource of approximately 2.2 tonnes); (ii) 789,517 tonnes of 333 category (inferred resources) (containing metal gold resource of approximately 8.0 tonnes); and (iii) 761,143 tonnes of 334 category (resources with some predicted potential only) (containing metal gold resource of approximately 7.4 tonnes), for a total of 17.6 tonnes of metal gold resources, which is more than 10 tonnes. As such, the final Consideration shall not subject to adjustment and remain unchanged at RMB147,000,000 (equivalent to approximately HK$167,045,454).

With reference to the valuation report as set out in Appendix V of the circular, the value of the Target Mine as at 31 March 2010 is RMB1,000,000,000 (equivalent to approximately HK$1,136,363,636) based on certain bases and assumptions contained in that report. The Directors note from the valuation report that the valuer has assumed that the inferred or even lower grade resources (334 category) are exploitable. With the estimate of approximately 2.2 tons resources in 122b category (indicated resources), the value for the 122b category (indicated resources) resources in the Target Mine would be approximately RMB124.83 million (equivalent to approximately HK$141.85 million) which is roughly estimated based on pro-rata basis. Taken into account of the 70% interest in the PRC Company, the value for the 122b category (indicated resources) resources in the Target Mine attributable to Target Group would be approximately RMB87.38 million (equivalent to approximately HK$99.30 million) which represents approximately 59.44% of the Consideration. However, the 122b category (indicated resources) resources in the Target Mine only represents 12.48% of the estimated gold resources in the Target Mine. On such basis, the Directors note that the Consideration is substantially lower than the valuation which the Consideration represents approximately 79% discount to the relevant valuation (taken into account of the 70% interest in the PRC Company). Moreover, the Directors note that the prices of gold are on the upward trend over the past few years. As disclosed in the valuation report on the Target Mine in Appendix V to the circular, the international gold price has been rising steadily throughout the year 2009 with the price ranged at approximately US$800/ounce and peaked over US$1,200/ounce in early December 2009.

Based on the above, the Directors consider that the terms of Acquisition (including the basis of the Consideration), which are determined on an arm's length basis, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Notwithstanding the above, the attention of the Shareholders and potential investors of the Company is drawn to the potential investment risk in the Target Group including but not limited to the lack of track record of operation. Shareholders and the potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

Conditions precedent

Completion of the Acquisition is subject to the following conditions having been fulfilled or waived (as the case may be):

(a) all necessary consents and approvals required to be obtained on the part of the Target Group, the Vendor and the Purchaser in respect of the sale and purchase of the Sale Share and Sale Loan as contemplated under the Acquisition Agreement having been obtained;

(b) the Vendor's warranties contained in the Acquisition Agreement remaining true, accurate, not misleading, not violated and no matter which brings to material adverse change in all respects from the date of the Acquisition Agreement and up to the Completion Date;

(c) the delivery to the Purchaser of a PRC legal opinion (in form and substance satisfactory to the Purchaser) from a PRC legal adviser appointed by the Purchaser in relation to the Acquisition Agreement and the transactions contemplated thereby;

(d) the Purchaser being satisfied with the results of the due diligence review to be conducted on the assets, liabilities, operations (including without limitation the PRC Company has been duly established and validly subsisting, there exists no encumbrance, restriction and/or prejudice to the ownership of the material assets of the PRC Company, such as exploration and/or exploitation rights and the relevant mineral resources and the PRC Company has obtained all the necessary approvals, consents and/or permits in connection with its operation and subsistence) and affairs of the Target Group;

(e) the completion of the Reorganisation (excluding the responsibility for the payment of the Committed Registered Capital by the Purchaser through the Target HK as contemplated under the Acquisition Agreement) and obtaining all the relevant consents, approvals and completion of registrations regarding the Reorganisation;

(f) the Vendor having provided sufficient evidence to the Purchaser that the PRC Company has already released all the external subcontracting agreements in respect of the projects undertaken over the Target Mine (including but not limited to the exploitation contracts and exploration contracts) and the form and substance of release shall be satisfactory to the Purchaser and its PRC legal advisers;

(g) there being no any debts and obligations due from the Target Group to any third party immediately before Completion (save for the shareholder's loan payable to the Vendor by the Target BVI, i.e. the Sale Loan);

(h) the obtaining of a mining report (in the form and substance satisfactory to the Purchaser) from an adviser designated by the Purchaser showing the gold resources in the Target Mine to be not less than 10 tonnes; and

(i) the passing by the Shareholders at an extraordinary general meeting of the Company to be convened and held of a resolution to approve the Acquisition Agreement and the transactions contemplated hereunder.

The Purchaser has the right to waive all of the above conditions in part or in full, except for conditions numbered (a) and (i). In the event that the above conditions are not fulfilled (or as the case may be, waived by the Purchaser) on or before 30 June 2010 or such later date as the Vendor and the Purchaser may agree in writing, the Acquisition Agreement shall cease and determine and neither party shall have any obligations towards each other, other than any antecedent breach and the Vendor has to refund the deposits (without interest) to the Purchaser within 2 months after the non-fulfillment of the above condition(s). The Directors confirm that as at the Latest Practicable Date, none of the above conditions have been fulfilled and the Company has no intention to waive any of the above conditions which are capable of being waived.

Completion

Completion of the Acquisition shall take place on the Completion Date.

Upon Completion, Target BVI will become an indirect wholly-owned subsidiary of the Company and the financial results of Target BVI will be consolidated into the consolidated financial statements of the Company.

INFORMATION ON THE TARGET GROUP AND THE TARGET MINE

The Target Group

Target BVI is a company incorporated in the BVI and is wholly and beneficially owned by the Vendor. Target BVI is principally engaged in investment holding. The sole asset of Target BVI is the entire issued capital of Target HK, which is expected to contribute and own 70% of the registered and paid up capital of the PRC Company.

The remaining 30% registered and paid up capital of the PRC Company is expected to be contributed and owned by an Independent Third Party, which to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are independent of and not connected with the Company and its connected persons (as defined in the Listing Rules). Immediately prior to 23 December 2009, the registered capital of the PRC Company was RMB1,000,000, which was contributed by its then existing shareholder. On 23 December 2009, the PRC Company obtained the approval from the Inner Mongolia Autonomous Region Government regarding the increase its registered capital from RMB1,000,000 to RMB10,000,000, of which Target HK is required to contribute RMB7,000,000 (equivalent to approximately HK$7,954,545) and the existing shareholder of the PRC Company is required to contribute additional RMB2,000,000 (equivalent to approximately HK$2,272,727), representing 70% and 30% interests of the increased registered capital of the PRC Company respectively ("**Reorganisation**"). Up to the date of the Acquisition Agreement, the paid-up capital of the PRC Company remained at RMB1,000,000.

The current business scope of the PRC Company includes the gold mine exploitation, selection of gold and sale of mineral products (which are permitted by law, rules and regulations, requirements by State Affairs Office of the PRC and cannot engage in those not allowed as said).

According to the audited financial statements of Target BVI Group prepared under the Hong Kong Financial Reporting Standards, the audited net losses (before and after taxation) of Target BVI Group for the period from 30 July 2009 (being its incorporation date) to 31 December 2009 were HK$27,697 and the audited net liabilities of Target BVI Group as at 31 December 2009 were HK$27,689.

According to the audited financial statements of PRC Company prepared under the prepared under the Hong Kong Financial Reporting Standards, the audited net losses (before and after taxation) of PRC Company for the three years ended 31 December 2007, 2008 and 2009 was HK$306,934, HK$1,137,993 and HK$2,424,886 respectively. The audited net liabilities of PRC Company as at 31 December 2007, 2008 and 2009 was HK$36,404, HK$1,185,230 and HK$3,616,245 respectively.

The directors do not expect there will be any variation in the aggregate of the remuneration payable to and benefits in kind receivable by the directors of the Target Group in consequence of the Acquisition.

The Target Mine

The Target Mine is located at Gouliang Town, Aohanqi, Inner Mongolia Autonomous Region, the PRC* (中國內蒙古自治區敖漢旗溝梁鎮) with mining area amounting approximately 2.0732 sq. km.. The Mining Permit of the Target Mine held by the PRC Company for the mining of gold was granted by the Department of Land and Resources, Inner Mongolia Autonomous Region, the PRC and is valid from 31 May 2009 to 31 May 2012. The PRC Company has already owned an ore-processing plant with daily processing capacity of 50 tonnes. In addition, the Group has appointed China Changchun Gold Design Institute* (中國長春黃金設計院) to design the processing facilities so as to increase the daily processing capacity to 1,000 tonnes in the Target Mine. A draft design report was available and the Company is currently reviewing such draft design report and it is expected that a conclusion on such draft design report will be available during the second half of 2010. Upon completion of the Acquisition, the Group will start to increase the current production capacity to 1,000 tonnes per day and, in the absence of unforeseen circumstances, the production is expected to be commenced in September or October 2010 with a target to achieve a total of 100,000 tonnes of ores for the three months ending 31 December 2010.

The Directors are of the view that the renewal of the exploration license is not a risk factor for the PRC Company as it is not necessary to have an exploration license to carry out exploration works in all the mining licensed areas for category 333 (inferred resources) and category 334 (resources with some predicted potential only) resources. Furthermore, the mining permit of the Target Mine enables the Group to do the exploratory works in all the mining licensed areas.

Based on the production plan and according to the technical report set out in Appendix IV to this circular, the total investment (i.e. Capex) will be RMB136 million which includes the mine development (for all grades of resources including the 122b category (indicated resources), 333 category (inferred resources) and 334 category (resources with some predicted potential only) in the Target Mine), set-up of ore processing plants and construction of storage and other supporting facilities. Further details regarding the production plan of the Target Mine are included in the technical report as well as the valuation report as set out in Appendix IV and Appendix V to this circular respectively.

RISK FACTORS

The Directors would like to draw the attention of the Shareholders to the following risk factors in connection with the Acquisition.

Mining Permit

The Mining of the PRC Company on the Target Mines may or may not be successfully renewed in 2012. If any the said Mining Permit is not renewed, the value of the PRC Company could be adversely affected. Shareholders and investors of the Company are thus advised to exercise caution when dealing in the Shares.

Significant and continuous capital investment

The Acquisition requires significant and continuous capital investment while the gold mine exploitation and exploration works may not be completed as planned. The original cost may be exceeded and the intended economic results or commercial viability may not be achieved. Actual capital expenditures for the exploitation and exploration works may significantly exceed the Group's working capital or budgets because of various factors beyond the Group's control, which in turn may affect the Group's financial condition.

Policies and regulations

Exploration and mining of the mineral resources in the PRC are subject to a range of PRC laws, regulations, policies, standards and requirements in relation to, among other things, mine exploration, development, production, taxation, labor standards, occupational health and safety, waste treatment and environmental protection and operation management. Any changes to these laws, regulations, policies, standards and requirements or to the interpretation or enforcement thereof may increase the Group's operating costs and thus adversely affect the results of operations.

There is no assurance that the Group will be able to comply with any new PRC laws, regulations, policies, standards and requirements applicable to the exploration and mining industry or any changes in existing laws, regulations, policies, standards and requirements economically or at all. Further, any such new PRC laws, regulations, policies, standards and requirements or any such change in existing laws, regulations, policies, standards and requirements may also constrain the future development of the Group and may adversely affect its profitability.

Environmental protection policies

The exploitation and exploration business is subject to environmental protection law and regulations in the PRC. If the Group fails to comply with existing or future environmental laws and regulations, the Group may be required to take remedial measures, which could have a material adverse effect on our business, operations, financial condition and results of operations.

Uncertainty of resource estimate

Based on the technical report prepared by SRK Consulting China Limited (as set out in Appendix IV to this circular), the estimated gold resources and reserves of 122b category (indicated resources) at the Target Mine are approximately 2.2 tonnes, representing approximately 12.5% of the total estimated resources of approximately 17.6 tonnes identified. The majority (approximately 87.5%) of gold resources in the Target Mine are inferred or below grade and such grades may or may not be economically viable for mining purpose. Moreover, estimates of the gold resources at the Target Mine may change significantly when new information becomes available or new factors arise, and interpretations and deductions on which resources estimates are based may prove to be inaccurate. In the event that the actual reserve represents materially less than the expected, the Group's future development and financial position will be adversely affected.

Assumption made in the valuation report

The valuation report prepared by Norton Appraisals Limited (as set out in Appendix V to this circular) was based on a number of assumptions including that the inferred or even lower grade resources are exploitable with a total resources amount of 1,888,498 tons of ore. As such, the said assumption may or may not be able to reflect the market value of the Target Mine with only indicated resources. Shareholders and investors of the Company are thus advised to exercise caution when dealing in the Shares.

Uncertainty of targeted expansion

According to the feasibility study conducted by Changchun Gold Design Institute as set out in the technical report prepared by SRK Consulting China Limited, the targeted expansion plan on the daily production capacity is designed to mine and process ore of 1,000t/d. However, given the high category resources used for the mine design at current stage are limited, there is no assurance to meet its targeted expansion to 1000t/d at current stage. Moreover, the development of the mine was started before the completion of the mine design, which may cause reconstruction in a later stage or impose safety risks, and consequently may adversely affect the future development of the Group.

The Group may not have suitable personnel for operations of the Target Mine

In order to further develop the exploration and operation of the Target Mine in future, the Group may be required to appoint additional personnel who are suitable and have adequate qualification in mining and exploration industry. In the event that the Group cannot be able to recruit suitable personnel for the operations of the Target Mine, the future operations and development of the Group will be adversely affected.

MINING PLAN OF THE TARGET MINE

(i) Existing status

During the site visit by the valuer in April 2010, a small scale processing mill was built at the Target Mine with a daily ore processing capacity of 50 tons. There is no mining activity at present. The mill is not regularly operated so there is no production record for reference. It is planned that a new concentrator will be built on the hillside nearby to replace the old processing mill.

(ii) Mine design

The Target Mine is an underground mine. It will be developed by shaft and adit upon completion. There are four mining areas in the Target Mine, namely Gezidong area, Dakuangti area, Shuiquangou area and Machegou area. Among the four mining areas, only Gezidong area has completed the preliminary development system while the remaining mining areas are still in development stage. Orebody No. 1 is proposed to be exploited primarily.

(iii) Mining method

The management of the Company has decided to apply shallow-hole shrinkage stoping mining method and cutting and filling mining method. Most parts of the orebodies will be mined by using shallow-hole shrinkage mining method as the orebodies are more than 1 m thickness. For those orebodies with thickness less than 1 m, cutting and filling mining method is selected.

(iv) Processing technology

As indicated in the technical report set out in Appendix IV of the Circular, two processing techniques are available for the extraction of gold ores, namely cyanidation leaching test and floatation test. From the result of cyanidation leaching test, it shows that the recovery rate of gold is good and has reached 96.77%, its processing capacity is 100 tons per day. For the floatation test, the overall gold recovery rate is 91.17% and its processing capacity is 1,000 tons per day. Both tests indicate that gold can be easily liberated and processed by either cyanidation leaching or by floatation.

However, as the processing capacity of cyanidation leaching technique is too small in scale, even though it has a higher gold recovery rate, the floatation technology will be adopted for the extraction.

(v) Production schedule

Based on the estimated resources amount stated in the relevant technical report and the forecasted production rate, it is believed that the resources are sufficient to support production for approximately 7 years. The following table represents the proposed output level of the Target Mine.

Production schedule of the Target Mine

Output	**Yr 2010 (Sept-Dec)**	**Yr 2011**	**Yr 2012**	**Yr 2013**	**Yr 2014**	**Yr 2015**	**Yr 2016**
Gold (tons)	0.86	2.57	2.57	2.57	2.57	2.57	0.85

(vi) Production capacity

The original production capacity is designated as 100 tons of ore per day. However, considering the potential of resources, the original production scale seems to be too small and therefore the management of the Company has decided to build a processing plant with the production capacity of 1,000 tons of ore per day.

(vii) Workforce numbers

The proposed workforce numbers at the Target Mine are 634, based on the proposed mining and processing capacity of 1,000 tons of ore per day. The working days per year is set to be 300, with 3 shifts each day and 8 hours per shift. This 634 head count figure includes 61 in company's headquarters administration, 448 in the mining department, 86 in the processing plant, 12 in the safety department and the remaining in the repairs and maintenance workshop and sales department.

(viii) Mining and processing costs

The management of the Company intends to appoint and utilize the services of local mining contractors for the construction, development and operation of the Target Mine. The mining contracts to be signed are based on the amount of ore mined and other measures such as average grade and dilution rate. In addition, the management cost of the Target Mine is estimated at approximately RMB80 per ton of ore. The respective mining costs and processing costs at the Target Mine presented in the relevant technical report are extracted as below.

Item	**RMB per ton of ore**
Mining costs	
– Sharing of development costs	45.0
– Consumables	13.5
– Labour	10.0
– Mine site geotechnical works	7.5
– Maintenance and administration	2.5
– Power	2.5
Processing costs	
– Power Maintenance	30.0
– Consumables	27.0
– Labour	7.5
– Steel balls	6.5
– Reagents	3.5
– Administration	2.5
Total mining and processing costs per ton of ore:	**158.0**

(ix) Capital costs and investments

Total investment on the Target Mine construction designed in the relevant business plan and feasibility study by Changchun Gold Design Institute is RMB 136 million, which includes the mine development, ore processing plant, tailing storage facility and other supporting facilities. In the technical adviser's opinion, the proposed capital investments are sufficient and likely to achieve the Company's stated targets.

Production Capacity and Forecast, 2010 to 2014

Mine/Plant		**Construction Period**							
Mine, Plant and Other Facilities		**Total**	**1st H 2010**	**2nd H 2010**	**1st H 2011**	**2nd H 2011**	**2012**		
	Mining Development	3060	100	2060					
	Metallurgical Processing Plant	5628	2230	3398					
	Tailings Storage Facility	760	500	260					
	Support Facility	1826	1220	606					
	Others	2326	1450	876					
	Total (Unit: 10,000RMB)	13600	6400	7200					
Mine/Plant		**Production Period**							
Operating Mine		**Unit**	**2nd H 2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
	Capacity	1000t	100	300	300	300	300	300	99.65
	Ore Mined	1000t	100	300	300	300	300	300	99.65
	Au Grade	g/t	9.3						
Metallurgical Processing Plant									
	Capacity	t	100.00	300.00	300.00	300.00	300.00	300.00	99.65
	Concentrate Production	t	15278.57	45835.71	45835.71	45835.71	45835.71	45835.71	15224.79
	Concentrate Grade	g/t	56						
	Recovery Rate	%	92						

REASONS FOR THE ACQUISITION

The Group is principally engaged in investment in energy, precious metals and resources related projects in the PRC.

The Company notes that the prices of gold are on the upward trend over the past few years. As the Target Mine is estimated to have abundant reserve of gold resources of approximately 17.6 tonnes of metal gold resources which comprises of approximately 2.2 tonnes of 122b category (indicated resources), 8.0 tonnes of 333 category (inferred resources) and 7.4 tonnes of 334 category (resources with some predicted potential only), the Directors consider it desirable to further expand the Group's resources-related projects into those containing precious metal resources. The Directors believe that the economy of the PRC will continue to grow at a high rate, the national demand of gold will continue to rise in the near future. The Directors therefore believe that the Acquisition can bring a diversified portfolio and high returns to the Group.

Currently, the Company does not have any capital commitment in relation to the exploitation in the Target Mine. The Acquisition is anticipated to be beneficial to the Company and enable the Company to generate income and cash flow from investment and trading activities in the natural resources sector.

For the reasons given above, the Directors believe that the Acquisition would enhance the future growth and profitability of the Group.

Taking into account the benefits of the Acquisition, the Board is of the view that the terms of the Acquisition are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE ACQUISITION ON THE GROUP

Earnings

Prior to the Acquisition, the Company does not hold any interest in the Target Group. Upon completion of the Acquisition, the Company will own the entire equity interest in the Target BVI and Target HK and 70% of the registered capital of the PRC Company (partly paid up), and the financial results of the Target Group will be consolidated into the Group's financial statements. The Directors consider that there would be no material impact on the Group's earnings up on completion of the Acquisition.

Assets

As at 30 September 2009, the unaudited total assets of the Group were approximately HK$949.2 million. As set out in the unaudited pro forma balance sheet of the Enlarged Group as set out in Appendix III to this circular, the unaudited pro forma total assets of the Enlarged Group would be increased by approximately HK$81.7 million to approximately HK$1,030.9 million upon completion of the Acquisition, where the unaudited pro forma net assets of the Enlarged Group would be increased by approximately HK$65.6 million to approximately HK$585.1 million. The increase in unaudited total assets is mainly attributable to the mining rights of the Target Mine.

Liabilities

The Group recorded unaudited consolidated total liabilities of approximately HK$429.7 million as at 30 September 2009. As set out in the pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix III to this circular, the unaudited pro forma total liabilities of the Enlarged Group would be increased by approximately HK$16.1 million to approximately HK$445.8 million. The increase is mainly attributable to the amount due to a shareholder of approximately HK$13.1 million.

FINANCIAL AND TRADING PROSPECT

The Group is principally engaged in investment in energy and precious metal resources related projects and investment in production of raw materials for power generation and construction of highways in the PRC and other countries. As disclosed in the interim report of the Company for the six months ended 30 September 2009, the Group will continue to take a prudent yet proactive approach and focus on seeking investment opportunities of energy and resources-related projects to capture the business opportunities arising from Chain's rapid economic development.

Looking forward, in view of the rapid opening up of the PRC market and the continued growth of the PRC economy, the Group will continue to explore new investment opportunities in the PRC market. The Group is also intending to pursue the Acquisition, being the subject matter of this circular. Despite the recent global financial crisis, the Group's management remains positive about the prospects of the energy segment and expects continuous growth in demand for gold in the PRC in the near future. Going forward, the Enlarged Group will continue its existing business and to explore other investment opportunities in the energy and natural resources industries that have earning potentials in order to expand its existing operations and to diversify its business. With the committed efforts of the staff and management, the Directors are confident and optimistic on the prospects of the Enlarged Group and believe that the Acquisition can bring a diversified portfolio and high return to the Group. The expansion plans of the Enlarged Group will be principally financed by the internal resources of the Enlarged Group or other financial resources (such as issue of new Shares or available banking facilities of the Enlarged Group) as the Directors may think fit. Taking into account the existing cash and bank balances, banking facilities and other internal resources available, the Directors, after due and careful enquiry, are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least two years from the date of this circular. The Enlarged Group will not have any material funding requirement for the two year period following the issue of this circular.

MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

(I) Target BVI Group

The Target BVI Group is a company incorporated in the British Virgin Islands on 30 July 2009 and is wholly and beneficially owned by the Vendors. The Target BVI Group is principally engaged in investment holding. As at 31 December 2009, the sole asset of Target BVI Group is the entire issued capital of the Target HK, which is expected to contribute and own 70% of the registered and paid up capital of the PRC Company.

For the period from 30 July 2009 (date of incorporation) to 31 December 2009

Operational review

Target BVI Group did not generate any revenue from its incorporation on 30 July 2009 (date of incorporation) to 31 December 2009. For the period from 30 July 2009 to 31 December 2009, the audited loss of Target BVI Group was HK$27,697.

Liquidity and financial resources

As at 31 December 2009, Target BVI Group had current assets amounted to HK$1,103,703 which comprised of the bank balances; the total liabilities was HK$1,131,392 which were comprised of other payables and an amount due to a shareholder. As at 31 December 2009, the gearing ratio (total borrowings to total assets) of Target BVI Group was nil because Target BVI Group did not have any borrowings during the period under review.

Capital structure

As at 31 December 2009, the issued share capital of Target BVI Group was US$1 (equivalent to approximately HK$8), comprises of 1 issued and fully paid ordinary share of US$1.

Significant investment, material acquisition and disposals

Target BVI Group did not have any significant investments, material acquisition or disposals for the period from 30 July 2009 to 31 December 2009.

Employee information

Since the Target BVI Group is an investment holding company, no employee information is available as at 31 December 2009.

Charge on group assets

As at 31 December 2009, no asset of Target BVI Group was pledged.

Contingent liabilities

As at 31 December 2009, Target BVI Group had no significant contingent liabilities.

(II) PRC Company

The PRC Company was a limited liability established in the PRC on 17 August 2006 and became a sino-foreign joint venture established under the PRC laws on 3 February 2010. The PRC Company is principally engaged in the gold mine exploitation, selection of gold and sale of mineral products (which are permitted by law, rules and regulations, requirements by State Affairs Office of the PRC and cannot engage in those not allowed as said).

For the period from 1 January 2007 to 31 December 2009

Operational review

The PRC Company did not generate any revenue for the three years ended 31 December 2007, 2008 and 2009. For the three years ended 31 December 2007, 2008 and 2009, the audited loss of PRC Company was HK$306,934, HK$1,137,993 and HK$2,424,886 respectively. The loss in these periods were mainly attributed from general and administrative expenses incurred in the respective periods.

Liquidity and financial resources

As at 31 December 2007, 31 December 2008 and 31 December 2009, the non-current assets of PRC Company were approximately HK$5.3 million, HK$8.4 million and 11.4 million respectively. The non-current assets in these periods were attributed by (i) the exploration and evaluation assets; (ii) the mining rights; and (iii) the property, plant and equipment.

As at 31 December 2007, 31 December 2008 and 31 December 2009, the current assets of PRC Company were approximately HK$2.0 million, HK$1.1 million and HK$1.1 million respectively, which comprised of other receivables of approximately HK$1.0 million, HK$854,469 and HK$830,950 respectively and bank balances and cash of HK$950,305, HK$252,233 and HK$247,113 as at 31 December 2007, 31 December 2008 and 31 December 2009 respectively.

As at 31 December 2007, 31 December 2008 and 31 December 2009, the current liabilities of PRC Company were approximately HK$7.3 million, HK$10.7 million and HK$16.1 million respectively, which comprised of other payables of approximately HK$266,859, HK$876,183 and HK$3.0 million respectively and amount due to a shareholder of approximately HK$7.0 million, HK$9.9 million and HK$13.1 million as at 31 December 2007, 31 December 2008 and 31 December 2009 respectively.

In addition, as at 31 December 2007, 31 December 2008 and 31 December 2009, the gearing ratio (total borrowings to total assets) of PRC Company was nil, nil and nil because PRC Company did not have any borrowings.

Capital structure

As at 31 December 2007, 31 December 2008 and 31 December 2009, PRC Company had paid-up capital of RMB1 million (equivalent to approximately HK$971,250).

Significant investment, material acquisition and disposals

For each of the three years ended 31 December 2007, 2008 and 2009, there were no significant investments, material acquisition or disposal of subsidiaries and affiliated companies.

Employee information

As at 31 December 2007, 31 December 2008 and 31 December 2009, PRC Company employed a total number of 23, 22 and 30 employees. The staff costs were approximately HK$528,200, HK$1.4 million and HK$1.7 million for the three years ended 31 December 2007, 2008 and 2009 respectively.

Charge on group assets

As at 31 December 2007, 31 December 2008 and 31 December 2009, no asset of PRC Company was pledged.

Contingent liabilities

As at 31 December 2007, 31 December 2008 and 31 December 2009, PRC Company had no significant contingent liabilities.

Updated information regarding the 2009 Acquisition

During the year 2009, the Group has entered into an acquisition agreement with Mr. Leung for the acquisition ("2009 Acquisition") of Nice Think Group Limited, a company incorporated in the BVI ("2009 Target BVI"). The 2009 Target BVI is principally engaged in investment holding. The sole asset of 2009 Target BVI is the entire issued capital of Victor Bright Investment Limited, a company incorporated in Hong Kong ("2009 Target HK"), which is an investment holding company and owns 65% of the registered and paid up capital of 黑龍江中誼偉業經貿易有限公司 (Heilongjiang Zhongyi Weiye Economic & Trade Co., Ltd.) ("2009 Target PRC"). The current business scope of 2009 Target PRC includes the wholesale of steel, building materials, sunflower seeds, green beans, red beans and kidney beans and carrying out exploration work at the places in respect of which exploration permits have been obtained. At the time of the 2009 Acquisition, the 2009 Target PRC is the holder of the mining rights of three mines in Hulin City, Heilongjiang Province, the PRC.

The aggregate value of the consideration for the 2009 Acquisition was RMB360 million (equivalent to approximately HK$409.1 million) and was settled by the issue to Mr. Leung of (i) the promissory notes in the principal amount of HK$272,727,273 (at 1.5% coupon per annum, maturing on 30 September 2011) and (ii) the convertible bonds (which carry, among other rights, the right to convert the convertible bonds into Shares at the initial conversion price of HK$0.075 per conversion Share) in the aggregate principal amounts of HK$136,363,636. There will be no variation between the aggregate of the remuneration payable to and benefits in kind receivable by the directors of the 2009 Target BVI, 2009 Target HK and 2009 Target PRC after completion of the 2009 Acquisition.

As disclosed in the announcement of the Company dated 12 November 2009 and 11 May 2010, the 2009 Target PRC obtained on 27 October 2009 additional exploration permits in respect of two copper and poly-metal mines. The two copper and poly-metal mines are located in Xinancha, Hulin City, Heilongjiang Province, the PRC and Sanchalu, Hulin City, Heilongjiang Province, the PRC respectively, with area of approximately 76 square kilometres and 92 square kilometres respectively. Including the then exploration permits of three mines held by the 2009 Target PRC, the 2009 Target PRC has exploration permits of a total of 5 mines (collectively, the "HLJ Mines") with total mining area of approximately 365 square kilometres.

Below are the brief particulars of the exploration permits currently owned by the 2009 Target PRC:

Location of mines	**Issue Date**	**Date of renewal**
No. 290 Highland, Hulin City, Heilongjiang Province, the PRC	5 November 2008	5 November 2011
Paoshouying Dongshan, Hulin City, Heilongjiang Province, the PRC	16 April 2008	16 April 2011
headstream of Dumuhe, Hulin City, Heilongjiang Province, the PRC	16 April 2008	16 April 2011
Xinancha, Hulin City, Heilongjiang Province, the PRC	17 August 2009	17 August 2012
Sanchalu, Hulin City, Heilongjiang Province, the PRC	17 August 2009	17 August 2012

Updated information regarding the HLJ Mines

Before September 2009, certain drilling programmes had been conducted on each of the three mines in Heilongjiang Province, the PRC, however the estimate standard was yet to be recognized by the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code"). The Group therefore appointed Heilongjiang Jinshi Geology and Mining Co Limited (黑龍江金石地質礦業有限責任公司) to conduct simplified geological testing and preliminary sampling on each of the three mines, identify specific mining areas where resources may be more concentrated to build-up a foundation for further exploration programmes to be carried out in 2010. The Group has appointed Heilongjiang Jinshi Geology and Mining Co Limited (黑龍江金石地質礦業有限責任公司) to design and plan a detail geological exploration programmes on each of the three mines with the purpose to complete a exploration report which comply with the JORC Code, such design plan was completed in March 2010. However, affected by the freeze and frozen period during around October to April each year in Heilongjiang Province, no outdoor geological works can be carried out. The identification of the two additional mines as stated in the next paragraph has also taken additional time and resources for the Group to evaluate the schedule of the exploration works for the entire areas. As a result, on-site and actual exploration works can only be commenced since May 2010, these exploration works include 1:10000 geochemical, 1:10000 accurately magnetic analysis; 1:10000 induced polarization; country rock spectral analysis and exploratory trench design and planning. Heilongjiang Jinshi Geology and Mining Co Limited (黑龍江金石地質礦業有限責任公司) will also be responsible for the exploration works of these three mines. For the reasons mentioned above, there is no significant progress on the exploration works since September 2009 to present, and the above-mentioned exploration works are expected to be completed by the end of 2010.

In October 2009, the 2009 Target PRC obtained additional exploration permits in respect of two copper and poly-metal mines. The two copper and poly-metal mines are located in (i) Xinancha, Hulin City, Heilongjiang Province, the PRC; and (ii) Sanchalu, Hulin City, Heilongjiang Province, the PRC respectively, with an aggregate mining area of approximately 168.4 square kilometers. At the same time, the 2009 Target PRC appointed Heilongjiang Suihuajinbo Geology Mining Co Ltd (黑龍江綏化金博地質礦業有限責任公司) to conduct and complete certain simplified geological testing and water analysis on these two mines, identify specific mining areas where gold resources may be more concentrated to build-up a foundation for further exploration programmes to be carried out in 2010. The Group has appointed Heilongjiang Suihuajinbo Geology Mining Co Ltd (黑龍江綏化金博地質礦業有限責任公司) to design and plan a detail exploration programmes on each of these two mines with the purpose to complete a exploration report which comply with the JORC Code, and such design plan was completed in March 2010. However, affected by the freeze and frozen period during around October to April each year in Heilongjiang Province, no outdoor geological works can be carried out. As a result, on-site and actual exploration works can only be commenced since May 2010, these exploration works include 1:10000 geochemical, 1:10000 accurately magnetic analysis; 1:10000 induced polarization; country rock spectral analysis and exploratory trench design and planning. Heilongjiang Suihuajinbo Geology Mining Co Ltd (黑龍江綏化金博地質礦業有限責任公司) will also be responsible for the exploration works of these two mines. For the reasons mentioned above, there is no significant progress on the exploration works since September 2009 to present, and the above-mentioned exploration works are expected to be completed by the end of 2010.

Currently, the geological works on the five mines were carried out under PRC exploration standards, to prepare for the application of exploitation permit, the geological works are expected to be conducted with reference to the JORC Code and an exploration report which comply with JORC is expected to be available by the end of 2010.

IMPLICATION OF THE ACQUISITION UNDER THE LISTING RULES

The Acquisition constitutes a major transaction on the part of the Company under Chapter 14 of the Listing Rules. Accordingly, the Acquisition Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules. The EGM will be held to consider and, if thought fit, pass the ordinary resolution to approve the Acquisition Agreement and the transactions contemplated thereunder. To the best knowledge of the Directors, as at the Latest Practicable Date, none of the Shareholder has material interests in the Acquisition, and therefore no Shareholder will be required to abstain from voting on the resolution approving the Acquisition Agreement and the transactions contemplated thereunder at the EGM. Any vote exercised by the Shareholders at the EGM shall be taken by poll.

EGM

The EGM will be convened at which resolutions will be proposed to seek the approval of the Shareholders by way of a poll for the transactions contemplated under the Acquisition Agreement, including, amongst other things, the Acquisition. Any vote exercised by the Shareholders at the EGM shall be taken by poll.

RECOMMENDATIONS

The Directors consider that the terms of the Acquisition Agreement are fair and reasonable and on normal commercial terms and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution as set out in the notice of EGM to approve the Acquisition.

Yours faithfully,
By Order of the Board
Sino Prosper State Gold Resources Holdings Limited
Sung Kin Man
Chief Executive Officer & Executive Director

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the audited consolidated results of the Group for the years ended 31 March 2007, 2008 and 2009 as extracted from the published audited financial statements of the Group:

	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*
Continuing operations			
Revenue	31,335	84,714	20,138
Cost of sales	(30,774)	(84,405)	(19,334)
Gross profit	561	309	804
Other income and gains	6,147	5,292	6,661
General and administrative expenses	(16,275)	(33,376)	(131,300)
Finance costs	(40)	(40)	(40)
Loss before tax	(9,607)	(27,815)	(123,875)
Income tax expense	(355)	–	–
Loss for the year from continuing operations	(9,962)	(27,815)	(123,875)
Discontinued operations			
Result for the year from discontinued operations	–	–	–
Loss for the year	(9,962)	(27,815)	(123,875)
Attributable to:			
Equity holders of the Company	(9,764)	(27,398)	(122,173)
Minority interests	(198)	(417)	(1,702)
	(9,962)	(27,815)	(123,875)
Loss per share			
From continuing and discontinued operations			
Basic and diluted (HK cents per share)	0.74	2.13	9.91
From continuing operations			
Basic and diluted (HK cents per share)	0.74	2.13	9.91

The following is a summary of the audited consolidated assets and liabilities of the Group as at 31 March 2007, 2008 and 2009 as extracted from the published audited financial statements of the Group:

	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	733	988	586
Current assets			
Trade and other receivables	81,870	22,703	17,269
Amounts due from minority shareholders	2,815	3,548	3,698
Bank balances and cash	230,232	270,413	258,960
	314,917	296,664	279,927
Current liabilities			
Trade and other payables	40,951	25,389	15,397
Obligation under a hire-purchase contract	124	186	186
Tax liabilities	355	–	–
	41,430	25,575	15,583
Net current assets	273,487	271,089	264,344
Total assets less current liabilities	274,220	272,077	264,930
Non-current liabilities			
Obligation under a hire-purchase contract	–	124	311
Net assets	274,220	271,953	264,619
Capital and reserves			
Share capital	15,674	12,862	12,742
Share premium and reserves	257,461	257,586	250,362
Equity attributable to equity holders of the Company	273,135	270,448	263,104
Minority interests	1,085	1,505	1,515
Total equity	274,220	271,953	264,619

2. FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2009

The following is the audited financial statements of the Group for the year ended 31 March 2009 together with comparative figures and relevant notes as extracted from the annual report of the Company for the year ended 31 March 2009.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2009

	Notes	**2009** *HK$'000*	**2008** *HK$'000*
Revenue	*5*	31,335	84,714
Cost of sales		(30,774)	(84,405)
Gross profit		561	309
Other income and gains	*7*	6,147	5,292
General and administrative expenses		(16,275)	(33,376)
Finance costs	*8*	(40)	(40)
Loss before tax		(9,607)	(27,815)
Income tax expense	*9*	(355)	–
Loss for the year	*10*	(9,962)	(27,815)
Attributable to:			
Equity holders of the Company		(9,764)	(27,398)
Minority interests		(198)	(417)
		(9,962)	(27,815)
Loss per share	*14*		
Basic and diluted (HK cents per share)		0.74	2.13

CONSOLIDATED BALANCE SHEET

As at 31 March 2009

	Notes	2009 *HK$'000*	2008 *HK$'000*
Non-current assets			
Property, plant and equipment	*16*	733	988
Current assets			
Trade and other receivables	*18*	81,870	22,703
Amounts due from minority shareholders	*19*	2,815	3,548
Bank balances and cash	*20*	230,232	270,413
		314,917	296,664
Current liabilities			
Trade and other payables	*21*	40,951	25,389
Obligation under a hire-purchase contract	*22*	124	186
Tax liabilities		355	–
		41,430	25,575
Net current assets		273,487	271,089
Total assets less current liabilities		274,220	272,077
Non-current liabilities			
Obligation under a hire-purchase contract	*22*	–	124
Net assets		274,220	271,953
Capital and reserves			
Share capital	*23*	15,674	12,862
Share premium and reserves		257,461	257,586
Equity attributable to equity holders of the Company		273,135	270,448
Minority interests		1,085	1,505
Total equity		274,220	271,953

BALANCE SHEET
As at 31 March 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Investments in subsidiaries	17	78	78
Current assets			
Other receivables	18	–	12
Amounts due from subsidiaries	17	139,492	140,818
Bank balances and cash		1,033	19
		140,525	140,849
Current liabilities			
Other payables	21	1,233	1,015
Amounts due to subsidiaries	17	8,235	6,795
		9,468	7,810
Net current assets		131,057	133,039
Net assets		131,135	133,117
Capital and reserves			
Share capital	23	15,674	12,862
Share premium and reserves	26	115,461	120,255
Total equity		131,135	133,117

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2009

	Attributable to equity holders of the Company									
	Share capital	Share premium	Warrants reserve	Share options reserve	Shareholder's contribution	Translation reserve	Accumulated losses	Total reserves	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2007	12,742	209,815	–	61,115	12,640	2,939	(36,147)	250,362	1,515	264,619
Exchange differences arising on translation of foreign operations	–	–	–	–	–	26,342	–	26,342	407	26,749
Net income and expenses recognized directly in equity	–	–	–	–	–	26,342	–	26,342	407	26,749
Loss for the year	–	–	–	–	–	–	(27,398)	(27,398)	(417)	(27,815)
Total recognized income and expenses for the year	–	–	–	–	–	26,342	(27,398)	(1,056)	(10)	(1,066)
Placing of warrants *(Note 27)*	–	–	2,440	–	–	–	–	2,440	–	2,440
Recognition of equity-settled share based payments *(Note 25)*	–	–	–	500	–	–	–	500	–	500
Issue of ordinary shares upon exercise of share options *(Note 23 (i))*	120	5,340	–	–	–	–	–	5,340	–	5,460
Transfer of reserves upon exercise of share options	–	120	–	(120)	–	–	–	–	–	–
At 31 March 2008 and 1 April 2008	12,862	215,275	2,440	61,495	12,640	29,281	(63,545)	257,586	1,505	271,953
Exchange differences arising on translation of foreign operations	–	–	–	–	–	1,768	–	1,768	(222)	1,546
Net income and expenses recognized directly in equity	–	–	–	–	–	1,768	–	1,768	(222)	1,546
Loss for the year	–	–	–	–	–	–	(9,764)	(9,764)	(198)	(9,962)
Total recognized income and expenses for the year	–	–	–	–	–	1,768	(9,764)	(7,996)	(420)	(8,416)
Issue of new shares *(Note 23 (ii))*	2,572	5,916	–	–	–	–	–	5,916	–	8,488
Transaction costs attributable to issue of new shares	–	(85)	–	–	–	–	–	(85)	–	(85)
Recognition of equity-settled share based payments *(Note 25)*	–	–	–	1,560	–	–	–	1,560	–	1,560
Issue of ordinary shares upon exercise of share options *(Note 23 (iii))*	240	480	–	–	–	–	–	480	–	720
Transfer of reserves upon exercise of share options	–	240	–	(240)	–	–	–	–	–	–
At 31 March 2009	**15,674**	**221,826**	**2,440**	**62,815**	**12,640**	**31,049**	**(73,309)**	**257,461**	**1,085**	**274,220**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2009

	Notes	2009 HK$'000	2008 HK$'000
Operating activities			
Loss before tax		(9,607)	(27,815)
Adjustments for:			
Finance costs		40	40
Loss on disposal of property, plant and equipment		–	106
Interest income		(1,321)	(2,600)
Depreciation		293	332
Equity-settled share-based payments expenses		1,560	500
Operating cash flows before movements in working capital		(9,035)	(29,437)
Trade and other receivables		(59,167)	(5,434)
Amounts due from minority shareholders		733	150
Trade and other payables		15,562	9,992
Cash used in operations		(51,907)	(24,729)
Interest received		1,321	2,600
Net cash used in operating activities		(50,586)	(22,129)
Investing activities			
Purchase of property, plant and equipment		(29)	(895)
Proceeds from disposal of property, plant and equipment		–	55
Net cash used in investing activities		(29)	(840)
Financing activities			
Proceeds from issue of ordinary shares	*23*	9,123	5,460
Proceeds from placing of warrants	*27*	–	2,440
Capital repayment of hire purchase obligations		(186)	(187)
Interest paid		(40)	(40)
Net cash generated by financing activities		8,897	7,673
Net decrease in cash and cash equivalents		(41,718)	(15,296)
Cash and cash equivalents at the beginning of the financial year		270,413	258,960
Effect of foreign exchange rate changes		1,537	26,749
Cash and cash equivalents at the end of the financial year		230,232	270,413
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		230,232	270,413

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

1. GENERAL

Sino Prosper Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company and all values are rounded to the nearest thousand except when otherwise indicated.

The principal activities of the Company and its subsidiaries (the "Group") are investment holding, investment in energy and natural resources related projects and investment in production of raw materials for power generation and construction of highways in the People's Republic of China (the "PRC") and other countries.

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

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

		Notes
HKFRSs (Amendments)	Improvements to HKFRSs	*1*
HKFRSs (Amendments)	Improvements to HKFRSs 2009	*2*
HKAS 1 (Revised)	Presentation of Financial Statements	*3*
HKAS 23 (Revised)	Borrowing Costs	*3*
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	*4*
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation	*3*

		Notes
HKAS 39 (Amendment)	Eligible Hedged Items	4
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	3
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations	3
HKFRS 3 (Revised)	Business Combinations	4
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments	3
HKFRS 8	Operating Segments	3
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives	5
HK(IFRIC)-Int 13	Customer Loyalty Programmes	6
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate	3
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation	7
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners	4
HK(IFRIC)-Int 18	Transfers of Assets from Customers	8

Notes:

1. Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2. Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate
3. Effective for annual periods beginning on or after 1 January 2009
4. Effective for annual periods beginning on or after 1 July 2009
5. Effective for annual periods ending on or after 30 June 2009
6. Effective for annual periods beginning on or after 1 July 2008
7. Effective for annual periods beginning on or after 1 October 2008
8. Effective for transfers of assets from customers received on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

Subsidiaries

A subsidiary is an entity that is controlled by the Company, where the Company has the power to govern the financial and operating policies of such entity so as to obtain benefits from its activities.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognized at their fair values at the acquisition date, except for non-current 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*, which are recognized and measured at fair value less costs to sell.

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

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

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalized goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

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

Revenue from sale of goods is recognized when the goods are delivered and titled has passed.

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

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent depreciation and impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	:	20%
Motor vehicles	:	20 – 30%
Furniture, fixtures and equipment	:	20 – 33 $^1/_3$%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognized.

Leasing

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

The Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs (see below).

Rental payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognized in the translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalized as part of the cost of those assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. To the extent that fixed-rated bank borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflected the hedged interest rate.

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

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

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

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Impairment of tangible and intangible assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as revaluation increase under that standard.

Financial instruments

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

Financial assets

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

Effective interest method

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

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

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

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

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

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

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, amounts due from minority shareholders and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

Available-for-sale financial assets

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

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognized in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in equity is removed from equity and recognized in profit or loss (see accounting policy in respect of impairment loss on financial assets below).

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

Impairment of financial assets

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

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

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

- significant financial difficulty of the issuer or counterparty; or

- default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

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

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

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

Effective interest method

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

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

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

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

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

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

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss includes any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities (including obligation under a hire-purchase contract, and trade payables and other payables) are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

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

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

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Equity-settled share-based payment transactions

Share options granted to employees

For grants of share options which are conditional upon satisfying specified vesting conditions, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). The impact of the revision of the original estimates during the vesting period, if any, is recognized in profit or loss with a corresponding adjustment to share options reserve.

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

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

Share options granted to consultants

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of property, plant and equipment

The Group evaluates whether items of property, plant and equipment have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, in accordance with the stated accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Estimated useful lives of property, plant and equipment

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

Impairment loss of trade and other receivables

The Group's policy for doubtful receivables is based on the on-going evaluation of the collectability and aging analysis of the trade and other receivables and on management's judgments. Considerable judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each debtor, and the present values of the estimated future cash flows discounted at the effective interest rates. If the financial conditions of the Group's debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss of trade and other receivables may be required.

5. REVENUE

An analysis of the Group's revenue for the year is as follows:

	2009	2008
	HK$'000	*HK$'000*
Revenue from sales of copper concentrate powder	–	82,813
Revenue from sales of fuel oil and chemicals	21,817	1,901
Revenue from sales of steel products	9,518	–
	31,335	84,714

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

Business segments

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

For the years ended 31 March 2008 and 2009, all the Group's revenue is derived from the Group's operations in the investment in energy and natural resources related projects and investment in production of raw materials for power generation and construction of highways in the PRC and other countries. Accordingly, no further segment information is presented.

Geographical segments

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

For the years ended 31 March 2008 and 2009, all the Group's revenue is derived from customers based in the PRC. Accordingly, no further analysis of the Group's segment revenue by geographical area is presented. An analysis of the Group's assets and capital expenditure by geographical segments is as follows:

	Hong Kong		PRC		Other Asia Pacific countries		Total	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amounts of segment assets	1,524	4,887	311,250	288,940	2,876	3,825	315,650	297,652
Additions to property, plant and equipment	7	–	22	885	–	10	29	895

7. OTHER INCOME AND GAINS

	2009	**2008**
	HK$'000	*HK$'000*
Interest income on bank deposits	1,321	2,600
Net foreign exchange gains	3,476	2,406
Sundry income	1,350	286
	6,147	5,292

8. FINANCE COSTS

	2009	**2008**
	HK$'000	*HK$'000*
Interest on hire-purchase obligation	40	40

No interest was capitalized during the year ended 31 March 2009 (2008: Nil).

9. INCOME TAX EXPENSE

	2009	**2008**
	HK$'000	*HK$'000*
Current tax:		
PRC Enterprise Income Tax	355	–

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profit tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/2009. Hong Kong Profits Tax is calculated at 16.5% (2008: 17.5%) of the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profits derived from or arising in Hong Kong for the years ended 31 March 2008 and 2009.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2008: 33%). Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate of the PRC subsidiaries to 25% from 1 January 2008 onwards.

The tax charge for the year can be reconciled to the loss per the consolidated income statement as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Loss before tax	(9,607)	(27,815)
Tax at Hong Kong Profits Tax rate of 16.5% (2008: 17.5%)	(1,585)	(4,868)
Tax effects of expenses not deductible for tax purpose	608	637
Tax effects of income not taxable for tax purpose	(614)	(255)
Tax effect of deductible temporary differences not recognized	3	6
Tax effect of estimated tax losses not recognized	1,828	4,565
Utilization of tax losses not previously recognized	(6)	(85)
Effect of different tax rates of group entities operating in other jurisdictions	121	–
Tax charge for the year	355	–

No deferred tax assets and liabilities are recognized in the consolidated financial statements as the Group did not have material temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as at 31 March 2008 and 2009.

10. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2009 HK$'000	2008 HK$'000
Employee benefits expense (including directors' emoluments)		
– Salaries and other benefits	6,451	7,237
– Contributions to retirement benefits schemes	112	71
	6,563	7,308
Depreciation for property, plant and equipment		
– Owned assets	293	234
– Leased assets	–	98
	293	332
Operating lease rentals in respect of land and buildings	1,621	1,750
Auditors' remuneration	520	600
Expense in relation to share options granted to consultants	1,560	500

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the six (2008: eight) directors were as follows:

For the year ended 31 March 2009

	Fees HK$'000	Salaries and other benefits HK$'000	Share-based payments HK$'000	Contributions to retirement benefits schemes HK$'000	Total HK$'000
Executive directors					
Mr. Leung Ngai Man	–	2,400	–	12	2,412
Mr. Yeung Kit	–	480	–	12	492
Mr. Wong Wa Tak	–	480	–	12	492
Independent non-executive directors					
Mr. Chan Sing Fai	120	–	–	–	120
Mr. Cai Wei Lun	–	–	–	–	–
Dr. Leung Wai Cheung	120	–	–	–	120
Total emoluments	240	3,360	–	36	3,636

For the year ended 31 March 2008

	Fees	Salaries and other benefits	Share-based payments	Contributions to retirement benefits schemes	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Mr. Leung Ngai Man	–	2,400	–	12	2,412
Mr. Yeung Kit	–	480	–	12	492
Mr. Wong Wa Tak	–	480	–	12	492
Mr. Tang Yan Tian (resigned on 22 February 2008)	–	440	–	11	451
Non-executive director					
Mr. Gao Shi Kui (resigned on 15 November 2007)	–	–	–	–	–
Independent non-executive directors					
Mr. Chan Sing Fai	120	–	–	–	120
Mr. Cai Wei Lun	–	–	–	–	–
Dr. Leung Wai Cheung	120	–	–	–	120
Total emoluments	240	3,800	–	47	4,087

There were no arrangements under which a director of the Company waived or agreed to waive any remuneration during the year ended 31 March 2009 (2008: Nil). There were no discretionary bonuses paid to the directors or the highest paid, non-director employees of the Group for the year ended 31 March 2009 (2008: Nil).

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2008: three) were directors of the Company whose emoluments are included in the disclosures in Note 11 above. The emoluments of the remaining two (2008: two) individuals were as follows:

	2009	2008
	HK$'000	*HK$'000*
Salaries and other benefits	780	960
Contributions to retirement benefits schemes	–	–
	780	960

Their emoluments fell within the following bands:

	Number of employees 2009	2008
Nil – HK$1,000,000	2	2

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

13. RETIREMENT BENEFIT SCHEMES

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

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

During the year ended 31 March 2009, the total amount contributed by the Group to the schemes and charged to the consolidated income statement amounted to approximately HK$112,000 (2008: HK$71,000). At 31 March 2009, there were no forfeited contributions available for the Group to offset contributions payable in future years (2008: Nil).

14. LOSS PER SHARE

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

	2009	**2008**
	HK$'000	*HK$'000*
Loss for the purpose of basic and diluted loss per share (loss for the year attributable to equity holders of the Company)	9,764	27,398

Number of shares

	2009	**2008**
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	1,314,971,514	1,283,796,035

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

15. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company for the year ended 31 March 2009 includes a loss of approximately HK$12,665,000 (2008: HK$18,152,000) which has been dealt with in the financial statements of the Company.

16. PROPERTY, PLANT AND EQUIPMENT

The Group	Leasehold improvements	Motor vehicles	Furniture, fixtures and equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1 April 2007	207	980	600	1,787
Exchange adjustments	–	–	(5)	(5)
Additions	–	696	199	895
Disposals	–	–	(300)	(300)
At 31 March 2008	207	1,676	494	2,377
Exchange adjustments	–	15	(14)	1
Additions	–	–	29	29
At 31 March 2009	207	1,691	509	2,407
Depreciation and impairment				
At 1 April 2007	93	882	226	1,201
Exchange adjustments	–	3	2	5
Provided for the year	41	150	141	332
Eliminated on disposals	–	–	(149)	(149)
At 31 March 2008	134	1,035	220	1,389
Exchange adjustments	–	1	(9)	(8)
Provided for the year	42	128	123	293
At 31 March 2009	176	1,164	334	1,674
Carrying amounts				
At 31 March 2009	31	527	175	733
At 31 March 2008	73	641	274	988

The carrying amount of the motor vehicle held under a hire-purchase contract amounted to nil at 31 March 2008 and 2009.

17. INVESTMENTS IN SUBSIDIARIES

	2009	2008
	HK$'000	*HK$'000*
The Company		
Unlisted shares, at cost	78	78

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

Particulars of the Company's subsidiaries at 31 March 2009 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Sino Prosper Group Limited	British Virgin Islands	US$10,000	100%	–	Investment holding
Joint Profit Group Limited	Hong Kong	HK$2	–	100%	Provision of administrative services
Konrich (Asia) Limited	Hong Kong	HK$2	–	100%	Investment holding
P.T. Sino Prosper Indocarbon *(Note (i))*	Indonesia	US$1,250,000	–	65%	Mineral resources exploration
Sino Prosper Asphalt Investment Limited	Hong Kong	HK$1	–	100%	Investment holding and trading of asphaltic rocks
Sino Prosper Coal Mining Investment Limited	British Virgin Islands	US$1	–	100%	Investment holding
Sino Prosper (States Gold) Investment Limited	Hong Kong	HK$10	–	60%	Investment holding
Sino Prosper Gas Limited	Hong Kong	HK$2	–	100%	Investment holding
Sino Prosper Medical Technology Limited	Hong Kong	HK$2	–	100%	Investment holding
Sino Prosper LNG Limited	Hong Kong	HK$1	–	100%	Investment holding
Sino Prosper Resources Limited	Hong Kong/ PRC	HK$1	–	100%	Investment holding and trading of asphaltic rocks
Sino Prosper Management Limited	Hong Kong	HK$1	–	100%	Provision of administrative services
Sino Prosper Minerals Investment Limited	Hong Kong	HK$1	–	100%	Investment holding
Sino Prosper Ethanol Development Limited	Hong Kong	HK$1	–	100%	Investment holding

Name of subsidiary	Place of incorporation or registration/ operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Sino Prosper Re-Energy Investment Limited	Hong Kong	HK$1	–	100%	Investment holding
Sino Prosper Renewable Resources Investment Limited	Hong Kong	HK$1	–	100%	Investment holding
Dalian Haixin Investment Consultant Co., Ltd. *(Note (ii))*	PRC	US$11,930,000	–	100%	Provision of consultancy services
海南泰瑞礦產開發有限公司 *(Note (iii))*	PRC	RMB2,000,000	–	95%	Trading of copper concentrate powder and steel products
中油中盈石油燃氣銷售有限公司 *(Note (iv))*	PRC	RMB12,169,630	–	95%	Trading of fuel oil and chemicals

Notes:

(i) P.T. Sino Prosper Indocarbon is a limited liability joint venture company incorporated in Indonesia which was established by the Group and its joint venture partners pursuant to a joint venture agreement dated 25 April 2005 for the purpose of extraction of bitumen in the bitumen mine in Buton Island, Indonesia.

(ii) Dalian Haixin Investment Consultant Co., Ltd. is a wholly foreign owned enterprise established in the PRC.

(iii) 海南泰瑞礦產開發有限公司 is a limited liability company established in the PRC.

(iv) 中油中盈石油燃氣銷售有限公司 is a sino-foreign equity joint venture company established in the PRC (Note 30).

(v) None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	16,962	4,064	–	–
Prepayments, deposits and other receivables	64,908	18,639	–	12
Total trade and other receivables	81,870	22,703	–	12

The Group allows an average credit period ranging from 30 to 90 days to its trade customers. Trade receivables are non-interest-bearing. The following is an aging analysis of trade receivables at the balance sheet date:

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
0 – 90 days	16,895	–
91 – 120 days	67	–
Over 1 year	–	4,064
	16,962	4,064

Included in the Group's trade receivable balance are debtors with a carrying amount of approximately HK$1,743,000 (2008: HK$4,064,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on past experience, the directors of the Company are of the opinion that no provision for impairment 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.

The aging analysis of trade receivables which are past due but not impaired are as follows:

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
0 – 90 days	1,743	–
91 – 120 days	–	–
Over 1 year	–	4,064
	1,743	4,064

Included in the balance of prepayments, deposits and other receivables of the Group as at 31 March 2009 was an initial deposit of RMB50,000,000 (equivalent to approximately HK$56,776,000) paid by the Group upon entering into an acquisition agreement on 10 June 2008 (which was amended and supplemented by a supplemental agreement dated 27 August 2008 and made by the same parties) (the "Acquisition Agreement"). Pursuant to the Acquisition Agreement, Sino Prosper Minerals Investment Limited ("SPML", a wholly owned subsidiary of the Company) had agreed to acquire and Mr. Leung Ngai Man (the "Vendor", being a director and substantial shareholder of the Company), had agreed to dispose of the entire issued capital of Agortex Development Limited (a company wholly and beneficially owned by the Vendor), at a total consideration of RMB230,000,000. On the date of the Acquisition Agreement, an aggregate amount of RMB50,000,000 (equivalent to approximately HK$56,776,000) was paid by the SPML to the Vendor as a deposit. Subsequent to the balance sheet date, the Vendor and SPML entered into a termination deed, whereby SPML and the Vendor have mutually agreed to terminate the Acquisition Agreement with effect from 11 May 2009 in accordance with its terms.

19. AMOUNTS DUE FROM MINORITY SHAREHOLDERS

The balances at 31 March 2009 comprise amounts due from the minority shareholders of P.T. Sino Prosper Indocarbon, a 65% owned subsidiary of the Company, of approximately HK$2,815,000 (2008: HK$3,548,000). The amounts due are unsecured, interest-free and repayable on demand.

20. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and bank balances that earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

At 31 March 2009, the Group had bank balances of approximately HK$229,033,000 (2008: HK$269,960,000) which were denominated in Renminbi and placed with banks situated in the PRC. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

21. TRADE AND OTHER PAYABLES

	Group		**Company**	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	15,312	228	–	–
Other payables and accruals	25,639	25,161	1,233	1,015
	40,951	25,389	1,233	1,015

The following is an aging analysis of trade payables at the balance sheet date:

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
0 – 90 days	15,148	–
91 – 120 days	164	–
Over 1 year	–	228
	15,312	228

The trade payables and other payables are non-interest-bearing.

22. OBLIGATION UNDER A HIRE-PURCHASE CONTRACT

The Group leases a motor vehicle under a hire-purchase contract. This lease is classified as finance lease and has remaining lease term of one year.

At 31 March 2009, the Group had total future minimum lease payments under a hire-purchase contract and its present value as follows:

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
Within one year	150	226
After 1 year but within 2 years	–	150
Total minimum lease payments	150	376
Less: Future finance charges	(26)	(66)
Present value of minimum lease payments	124	310

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
Present value of minimum lease payments repayable:		
Within one year	124	186
After 1 year but within 2 years	–	124
	124	310

23. SHARE CAPITAL

Ordinary shares of HK$0.01 each:	**Number of shares**	**Amount**
		HK$'000
Authorized:		
Ordinary shares of HK$0.01 each		
At 31 March 2008 and 2009	20,000,000,000	200,000
Issued and fully paid:		
At 1 April 2007	1,274,163,158	12,742
Exercise of share options *(Note (i))*	12,000,000	120
At 31 March 2008 and 1 April 2008	1,286,163,158	12,862
Issue of new shares *(Note (ii))*	257,230,000	2,572
Exercise of share options *(Note (iii))*	24,000,000	240
At 31 March 2009	1,567,393,158	15,674

Notes:

(i) During the year ended 31 March 2008, 12,000,000 ordinary shares were issued upon the exercise of a total of 12,000,000 share options at an exercise price of HK$0.455, giving rise to aggregate net proceed of HK$5,460,000.

(ii) On 19 September 2008, the Company announced that it had entered into the placing agreement dated 21 May 2008 (the "Placing Agreement"), which was supplemented by a few supplemental agreements, with a placing agent in relation to a placing of 257,230,000 shares at a price of HK$0.125 per share.

On 15 October 2008, the Company announced that the Placing Agreement lapsed on 15 October 2008 and the Company entered into a new placing agreement (the "New Placing Agreement") on the same day in relation to a placing of 257,230,000 shares at a price of HK$0.033 per share.

The completion of the New Placing Agreement took place on 25 February 2009 in accordance with the terms and conditions of the New Placing Agreement and an aggregate of 257,230,000 new shares have been successfully placed to not less than six placees at HK$0.033 per new share.

(iii) During the year ended 31 March 2009, 24,000,000 ordinary shares were issued upon the exercise of a total of 24,000,000 share options at an exercise price of HK$0.030, giving rise to aggregate net proceed of HK$720,000.

24. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 25 April 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 14 May 2012. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties including consultants as incentives for their contributions to the development of the Group.

The total number of shares in respect of which options may be granted under the Scheme and any other share option scheme of the Company is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with an aggregate value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 21 days from the date of the offer of grant of the share option. Options may be exercised at any time not later than 10 years from the date of grant of the share option. The exercise price is determined by the directors of the Company, and shall not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

Movements in the share options during the years ended 31 March 2008 and 2009 are as follows:

For the year ended 31 March 2009

Name or category of participant	Date of grant	Exercisable period	Exercise price	Number of share options: Outstanding and exercisable at 1 April 2008	Granted during the year	Exercised during the year	Outstanding and exercisable at 31 March 2009	Price of the Company's shares: At grant date of options HK$ per share	At exercise date of options HK$ per share
Mr. Leung Ngai Man	3 January 2005	3 January 2005 to 2 January 2015	HK$0.410	8,000,000	–	–	8,000,000	0.390	–
Mr. Yeung Kit	1 November 2004	1 November 2004 to 31 October 2014	HK$0.475	1,400,000	–	–	1,400,000	0.470	–
	12 January 2005	12 January 2005 to 11 January 2015	HK$0.410	5,000,000	–	–	5,000,000	0.290	–
Master Hill Development Limited *(Note (i))*	29 November 2004	29 November 2004 to 28 November 2014	HK$0.460	3,000,000	–	–	3,000,000	0.450	–
Mr. Chan Sing Fai	1 November 2004	1 November 2004 to 31 October 2014	HK$0.475	800,000	–	–	800,000	0.470	–
Mr. Cai Wei Lun	8 May 2006	8 May 2006 to 7 May 2016	HK$1.460	3,400,000	–	–	3,400,000	1.460	–
Directors				21,600,000	–	–	21,600,000		
Employees	8 May 2006	8 May 2006 to 7 May 2016	HK$1.460	23,000,000	–	–	23,000,000	1.460	–
	1 September 2006	1 September 2006 to 31 August 2016	HK$0.710	26,000,000	–	–	26,000,000	0.710	–
Consultants	23 March 2005	23 March 2005 to 22 March 2015	HK$0.340	4,000,000	–	–	4,000,000	0.340	–
	1 September 2006	1 September 2006 to 31 August 2016	HK$0.710	10,000,000	–	–	10,000,000	0.710	–
	4 September 2006	4 September 2006 to 3 September 2016	HK$0.710	6,000,000	–	–	6,000,000	0.710	–
	1 June 2007	1 June 2007 to 31 May 2017	HK$0.455	14,000,000	–	–	14,000,000	0.455	–
	17 March 2008	17 March 2008 to 16 March 2018	HK$0.150	24,000,000	–	–	24,000,000	0.130	–
	5 May 2008	5 May 2008 to 4 May 2018	HK$0.120	–	24,000,000	–	24,000,000	0.117	–
	6 May 2008	6 May 2008 to 5 May 2018	HK$0.125	–	24,000,000	–	24,000,000	0.119	–
	14 May 2008	14 May 2008 to 13 May 2018	HK$0.136	–	24,000,000	–	24,000,000	0.138	–
	15 May 2008	15 May 2008 to 14 May 2018	HK$0.137	–	24,000,000	–	24,000,000	0.136	–
	31 October 2008	31 October 2008 to 30 October 2018	HK$0.030	–	12,000,000	(12,000,000)	–	0.027	0.041
	31 October 2008	31 October 2008 to 30 October 2018	HK$0.030	–	12,000,000	(12,000,000)	–	0.027	0.048
	30 March 2009	30 March 2009 to 29 March 2019	HK$0.050	–	36,000,000	–	36,000,000	0.051	–
Total				**128,600,000**	**156,000,000**	**(24,000,000)**	**260,600,000**		
The weighted average exercise price per share				HK$0.680	HK$0.096	HK$0.030	HK$0.390		

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.045 (2008: HK$0.530).

For the year ended 31 March 2008

				Number of share options				Price of the Company's shares	
Name or category of participant	Date of grant	Exercisable period	Exercise price	Outstanding and exercisable at 1 April 2007	Granted during the year	Exercised during the year	Outstanding and exercisable at 31 March 2008	At grant date of options HK$ per share	At exercise date of options HK$ per share
Mr. Leung Ngai Man	3 January 2005	3 January 2005 to 2 January 2015	HK$0.410	8,000,000	–	–	8,000,000	0.390	–
Mr. Yeung Kit	1 November 2004	1 November 2004 to 31 October 2014	HK$0.475	1,400,000	–	–	1,400,000	0.470	–
	12 January 2005	12 January 2005 to 11 January 2015	HK$0.410	5,000,000	–	–	5,000,000	0.290	–
Master Hill Development Limited *(Note (i))*	29 November 2004	29 November 2004 to 28 November 2014	HK$0.460	3,000,000	–	–	3,000,000	0.450	–
Mr. Chan Sing Fai	1 November 2004	1 November 2004 to 31 October 2014	HK$0.475	800,000	–	–	800,000	0.470	–
Mr. Cai Wei Lun	8 May 2006	8 May 2006 to 7 May 2016	HK$1.460	3,400,000	–	–	3,400,000	1.460	–
Directors				21,600,000	–	–	21,600,000		
Employees	8 May 2006	8 May 2006 to 7 May 2016	HK$1.460	23,000,000	–	–	23,000,000	1.460	–
	1 September 2006	1 September 2006 to 31 August 2016	HK$0.710	26,000,000	–	–	26,000,000	0.710	–
Consultants	23 March 2005	23 March 2005 to 22 March 2015	HK$0.340	4,000,000	–	–	4,000,000	0.340	–
	1 September 2006	1 September 2006 to 31 August 2016	HK$0.710	10,000,000	–	–	10,000,000	0.710	–
	4 September 2006	4 September 2006 to 3 September 2016	HK$0.710	6,000,000	–	–	6,000,000	0.710	–
	1 June 2007	1 June 2007 to 31 May 2017	HK$0.455	–	26,000,000	(12,000,000)	14,000,000	0.455	0.530
	17 March 2008	17 March 2008 to 16 March 2018	HK$0.150	–	24,000,000	–	24,000,000	0.130	–
Total				**90,600,000**	**50,000,000**	**(12,000,000)**	**128,600,000**		
The weighted average exercise price per share				HK$0.855	HK$0.309	HK$0.455	HK$0.680		

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.530 (2007: HK$0.776).

Notes:

(i) Mr. Wong Wa Tak, who was appointed as an executive director of the Company on 14 January 2005, has beneficial interest in Master Hill Development Limited.

(ii) The total consideration received during the year from grant of share options amounted to HK$13 (2008: HK$5).

(iii) None of the share options were forfeited and expired during the years ended 31 March 2008 and 2009.

(iv) The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options. The price of the Company's shares disclosed as of the exercise date of the share options is the weighted average of the Stock Exchange closing prices as of the dates on which the options were exercised over all of the exercises of options within the disclosure line.

(v) At 31 March 2009, the exercise in full of the outstanding vested share options would, with the present capital structure of the Company, result in the issue of additional 260,600,000 ordinary shares (2008: 128,600,000 ordinary shares).

(vi) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

25. SHARE BASED PAYMENT TRANSACTIONS

	2009	**2008**
	HK$'000	*HK$'000*
Expenses in relation to share options granted to consultants	1,560	500

The fair values of share options granted to directors, employees and consultants determined at the dates of grant are expensed over the vesting periods, with a corresponding adjustment to the Group's share options reserve.

The Company measures the fair values of share options granted to consultants by reference to the fair values of services received. The total fair values of the share options granted to consultants for the year ended 31 March 2009 amounted to approximately HK$1,560,000 (2008: HK$500,000).

The Company has used the Black-Scholes option pricing model (the "Model") to value the share options granted to directors and employees. The Model is one of the commonly used models to estimate the fair value of a share option. The value of a share option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of a share option.

The Company has not granted any share options to directors and employees during the years ended 31 March 2008 and 2009.

26. SHARE PREMIUM AND RESERVES OF THE COMPANY

	Share premium HK$'000	Warrants reserve HK$'000	Share options reserve HK$'000	Shareholder's contribution HK$'000	Accumulated losses HK$'000	Total reserves HK$'000
At 1 April 2007	209,815	–	61,115	12,640	(153,443)	130,127
Placing of warrants *(Note 27)*	–	2,440	–	–	–	2,440
Recognition of equity-settled share based payments *(Note 25)*	–	–	500	–	–	500
Issue of shares upon exercise of share options *(Note 23(i))*	5,340	–	–	–	–	5,340
Transfer of reserves upon exercise of share options	120	–	(120)	–	–	–
Loss for the year	–	–	–	–	(18,152)	(18,152)
At 31 March 2008 and 1 April 2008	215,275	2,440	61,495	12,640	(171,595)	120,255
Issue of new shares *(Note 23(ii))*	5,916	–	–	–	–	5,916
Transaction costs attributable to issue of new shares	(85)	–	–	–	–	(85)
Recognition of equity-settled share based payments *(Note 25)*	–	–	1,560	–	–	1,560
Issue of shares upon exercise of share options *(Note 23(iii))*	480	–	–	–	–	480
Transfer of reserves upon exercise of share options	240	–	(240)	–	–	–
Loss for the year	–	–	–	–	(12,665)	(12,665)
At 31 March 2009	221,826	2,440	62,815	12,640	(184,260)	115,461

27. WARRANTS

On 21 May 2007, the Company announced that it had entered into a conditional warrant subscription agreement dated 16 May 2007 with an independent investor in relation to a private placing of 244,000,000 non-listed warrants at an issue price of HK$0.01 per warrant. The warrants entitled the holder thereof to subscribe for new shares of the Company at an initial exercise price of HK$0.64 per new share (subject to adjustment) at any time during a period of three years commencing from the date of issue of the warrants. Each warrant carried the right to subscribe for one new share.

The warrants were issued on 1 June 2007 upon completion of the warrant subscription agreement, and the Company received proceeds of HK$2,440,000 in respect of the placing of the warrants. The net proceeds from the placing of the warrants were used for general working capital of the Group.

At the balance sheet date, the Company had 244,000,000 (2008: 244,000,000) warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 244,000,000 (2008: 244,000,000) additional shares of HK$0.01 each.

28. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt (which includes current and non-current portions of obligation under a hire-purchase contract), cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated losses.

Net debt-to-equity ratio

The Group's management committee reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital.

The net debt-to-equity ratio at the year-end was as follow:

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
Debts (i)	124	310
Cash and cash equivalents	(230,232)	(270,413)
Net debt	–	–
Equity (ii)	274,220	271,953
Net debt-to-equity ratio	Nil	Nil

(i) Debt comprises current and non-current portions of obligation under a hire-purchase contact as detailed in Note 22.

(ii) Equity includes all capital and reserves of the Group.

29. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables		
– Trade and other receivables	81,623	22,703
– Amounts due from minority shareholders	2,815	3,548
– Bank balances and cash	230,232	270,413

	2009	**2008**
	HK$'000	*HK$'000*
Financial liabilities		
Financial liabilities at amortized cost		
– Trade and other payables	19,399	25,389
– Obligation under a hire-purchase contract	124	310

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from minority shareholders, bank balances and cash, trade and other payables and obligation under a hire-purchase contract. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

There has been no change to the Group's exposure to market risk or the manner in which it manages and measures the risk.

Foreign currency risk

During the year ended 31 March 2009, the Group mainly operated in the PRC and the majority of the Group's transactions and balances as at and for the year ended 31 March 2009 were denominated in RMB. All the sales and purchases for the year ended 31 March 2009 were denominated in RMB, which is the functional currency of the operating units making the sales and purchases. The directors consider that the currency risk is not significant and the Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

The Group is not exposed to significant fair value interest rate risk and cash flow interest rate risk. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Price risk

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

Credit risk

As at 31 March 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheet.

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limited, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers for whom there is no recent history of default.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The maturity profile of the Group's financial liabilities at the balance sheet date, based on the contractual undiscounted payments, was as follows:

	On demand or less than 1 year	**1-2 years**	**Total contractual undiscounted cash flows**	**Total carrying amount**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2009				
Trade and other payables	19,399	–	19,399	19,399
Obligation under a hire-purchase contract	150	–	150	124
	19,549	–	19,549	19,523
At 31 March 2008				
Trade and other payables	25,389	–	25,389	25,389
Obligation under a hire-purchase contract	226	150	376	310
	25,615	150	25,765	25,699

(c) Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

(i) The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

(ii) The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate their fair values.

30. CAPITAL COMMITMENTS

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

	2009	**2008**
	HK$'000	*HK$'000*
Authorised and contracted for investment in a joint venture company	40,544	44,587

Note: Pursuant to a joint venture agreement dated 4 February 2005 entered into between Sino Prosper Gas Limited ("SPGL" – a wholly owned subsidiary of the Company) and Lang Fang Development District Northern China Petroleum Sales Company (the "Joint Venture Partner"), SPGL and the Joint Venture Partner agreed to set up a joint venture company as an equity joint venture company in the PRC for a term of 30 years commencing from the date of issue of the business license of the joint venture company, which will be engaged in the wholesale, sales, transportation and storage of petroleum gas.

On 15 March 2005, SPGL, the Joint Venture Partner and Wuhan Hengsheng Shimao Petroleum Natural Gas Pipeline Engineering Company Limited (the "New Joint Venture Partner") entered into a supplemental agreement. Pursuant to the supplemental agreement, the Joint Venture Partner agreed to withdraw and the New Joint Venture Partner agreed to replace the Joint Venture Partner in the formation of the joint venture company. The registered capital of the joint venture company is RMB50 million which is to be contributed by SPGL as to RMB47.5 (2008: RMB47.5 million) and by the New Joint Venture Partner as to RMB2.5 million. Approximately RMB11.8 million, equivalent to HK$12.8 million (2008: approximately RMB7.4 million, equivalent to HK$7.8 million) has been contributed by SPGL during the year ended 31 March 2009.

The joint venture company, namely 中油中盈石油燃氣銷售有限公司, was treated as a subsidiary of the Group as at 31 March 2009.

At the balance sheet dates, the Company had no significant capital commitments.

31. OPERATING LEASE COMMITMENTS

At 31 March 2009, the Group had commitments for future minimum lease payments under non-cancelable operating leases in respect of rented premises which fall due as follows:

	2009	2008
	HK$'000	*HK$'000*
Within one year	931	1,297
In the second to fifth years inclusive	185	625
	1,116	1,922

Operating leases relate to office premises with lease terms of between 1 to 2 years. The Group does not have an option to purchase the leased asset at the expiry of lease period.

32. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group entered into the following significant related party transactions for the year ended 31 March 2009:

Compensation to key management personnel

	2009	2008
	HK$'000	*HK$'000*
Short-term employee benefits	3,600	4,040
Post-employment benefits	36	47
Share-based payments	–	–
	3,636	4,087

The above related party transactions do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

3. INTERIM FINANCIAL REPORT FOR THE SIX MONTH ENDED 30 JUNE 2009

The followings are the unaudited financial statements of the Group for the six months ended 30 September 2009 together with accompanying notes extracted from the interim report of the Group.

The Board (the "Board") of Directors (the "Directors") of Sino Prosper State Gold Resources Holdings Limited (formerly known as "Sino Prosper Holdings Limited") (the "Company") presents the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2009. These unaudited interim results have been reviewed by the Company's Audit Committee.

Condensed Consolidated statement of comprehensive income

	Notes	Six months ended 30 September 2009 (Unaudited) HK$'000	2008 (Unaudited) HK$'000
Revenue	2	14,184	10,391
Cost of sales		(13,445)	(10,140)
Gross profit		739	251
Other income and gains		584	5,645
General and administrative expenses		(7,442)	(8,901)
Finance costs		–	(20)
Loss before tax		(6,119)	(3,025)
Income tax expense	3	–	–
Loss for the period	4	(6,119)	(3,025)
Other comprehensive income/(loss)			
Currency translation differences		(279)	2,544
Other comprehensive income/(loss) for the period, net of tax		(279)	2,544
Total comprehensive income/(loss) for the period		(6,398)	(481)
Loss for the period attributable to:			
Equity holders of the Company		(6,117)	(2,340)
Minority interests		(2)	(685)
		(6,119)	(3,025)
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		(6,429)	244
Minority interests		31	(725)
		(6,398)	(481)
Loss per share for loss attributable to equity holders of the Company for the period	6		
Basic (HK cents per share)		0.38	0.18
Diluted (HK cents per share)		0.38	0.18

Condensed consolidated Balance Sheet

	Notes	As at 30 September 2009 (Unaudited) HK$'000	As at 31 March 2009 (Audited) HK$'000
Non-current assets			
Exploration and evaluation assets	7	634,707	–
Property, plant and equipment	8	2,119	733
		636,826	733
Current assets			
Trade and other receivables	9	11,653	81,870
Amounts due from minority shareholders		2,815	2,815
Bank balances and cash		297,888	230,232
		312,356	314,917
Current liabilities			
Trade and other payables	10	30,787	40,951
Obligation under a hire-purchase contract		–	124
Tax liabilities		355	355
		31,142	41,430
Net current assets		281,214	273,487
Total assets less current liabilities		918,040	274,220
Non-current liabilities			
Convertible bonds	11	125,836	–
Promissory note	12	272,727	–
		398,563	–
Net assets		519,477	274,220
Capital and reserves			
Share capital	13	17,114	15,674
Share premium and reserves		276,320	257,461
Equity attributable to equity holders of the Company		293,434	273,135
Minority interests		226,043	1,085
Total equity		519,477	274,220

Condensed Consolidated Cash Flow Statement

	Six months ended 30 September	
	2009	**2008**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Net cash generated by/(used in) operating activities	54,185	(52,212)
Net cash generated by/(used in) investing activities	(1,636)	929
Net cash generated by/(used in) financing activities	16,076	(113)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	68,625	(51,396)
Cash and cash equivalents at the beginning of the period	230,232	270,413
Effect of foreign exchange rate changes	(969)	43
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	297,888	219,060
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	297,888	219,060

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital reserve	Warrants reserve	Share options reserve	Shareholder's contribution	Translation reserve	Accumulated losses	Total reserves	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 April 2008 (Audited)	12,862	215,275	–	2,440	61,495	12,640	29,281	(63,545)	257,586	1,505	271,953
Loss for the period (Unaudited)	–	–	–	–	–	–	–	(2,340)	(2,340)	(685)	(3,025)
Other comprehensive income/(loss):											
Currency translation differences (Unaudited)	–	–	–	–	–	–	2,584	–	2,584	(40)	2,544
Total comprehensive income/(loss) for the period (Unaudited)	–	–	–	–	–	–	2,584	(2,340)	244	(725)	(481)
Grant of share options (Unaudited)	–	–	–	–	960	–	–	–	960	–	960
	–	–	–	–	960	–	–	–	960	–	960
As at 30 September 2008 (Unaudited)	12,862	215,275	–	2,440	62,455	12,640	31,865	(65,885)	258,790	780	272,432

	Attributable to equity holders of the Company										
	Share capital	**Share premium**	**Capital reserve**	**Warrants reserve**	**Share options reserve**	**Shareholder's contribution**	**Translation reserve**	**Accumulated losses**	**Total reserves**	**Minority interests**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 April 2009 (Audited)	15,674	221,826	–	2,440	62,815	12,640	31,049	(73,309)	257,461	1,085	274,220
Loss for the period (Unaudited)	–	–	–	–	–	–	–	(6,117)	(6,117)	(2)	(6,119)
Other comprehensive income/(loss):											
Currency translation differences (Unaudited)	–	–	–	–	–	–	(312)	–	(312)	33	(279)
Total comprehensive income/(loss) for the period (Unaudited)	–	–	–	–	–	–	(312)	(6,117)	(6,429)	31	(6,398)
Acquisition of subsidiaries (Unaudited)	–	–	–	–	–	–	–	–	–	224,927	224,927
Equity component of convertible bonds upon acquisition of subsidiaries	–	–	10,528	–	–	–	–	–	10,528	–	10,528
Issue of ordinary shares upon exercise of share options (Unaudited)	1,440	14,760	–	–	–	–	–	–	14,760	–	16,200
Transfer of reserves upon exercise of share options (Unaudited)	–	1,440	–	–	(1,440)	–	–	–	–	–	–
	1,440	16,200	10,528	–	(1,440)	–	–	–	25,288	224,927	251,655
As at 30 September 2009 (Unaudited)	17,114	238,026	10,528	2,440	61,375	12,640	30,737	(79,426)	276,320	226,043	519,477

Notes to the condensed consolidated interim financial statements

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information have been prepared in accordance with the Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" and other relevant HKAS and Interpretations and Hong Kong Financial Reporting Standards (collectively, the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). This unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2009, which have been prepared in accordance with HKFRSs.

Save for those new HKFRSs adopted during the period as set out below, the accounting policies and basis of preparation adopted in the preparation of this unaudited condensed consolidated interim financial information are consistent with those of the annual financial statements for the year ended 31 March 2009.

Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 April 2009:

- HKAS 1 (revised), "Presentation of Financial Statements". The revised standard prohibits the presentation of items of income and expenses (that is "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All "non-owner changes in equity" are required to be shown in a performance statement.

  Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

  The Group has elected to present one performance statement. The interim financial statements have been prepared under the revised disclosure requirements.

- HKFRS 8, "Operating Segments". HKFRS 8 replaces HKAS 14, "Segment reporting". It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, who makes strategic decisions.

- HKFRS 7 (Amendments), "Improving Disclosures about Financial Instruments". The amendment increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk. The Group will make additional relevant disclosures in its financial statements for the year ending 31 March 2010.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 April 2009:

- HKAS 23 (Amendment) – Borrowing Costs
- HKFRS 1 & HKAS 27 (Amendments) – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- HKFRS 2 (Amendment) – Vesting Conditions and Cancellations
- HKAS 32 (Amendment) – Puttable Financial Instruments and Obligations Arising on Liquidation
- HK(IFRIC) – Int 13 – Customer loyalty programmes
- HK(IFRIC) – Int 15 – Agreements for the Construction of Real Estate
- HK(IFRIC) – Int 16 – Hedges of a Net Investment in a Foreign Operation
- HK(IFRIC) – Int 18 – Transfers of Assets from Customers

The adoption of the above standards, amendments to standards and interpretations, if relevant, did not have significant impact on the Company's consolidated accounts.

The Group has not early applied any new and revised standards, amendments or interpretations that have been issued but are not effective.

2. REVENUE AND SEGMENT INFORMATION

The analysis of the Group's revenue for the period is as follows:

	Six months ended 30 September	
	2009	**2008**
	(unaudited)	**(unaudited)**
	HK$'000	*HK$'000*
Revenue from sales of gold	2,746	–
Revenue from sales of fuel oil and chemicals	11,438	857
Revenue from sales of steel products	–	9,534
	14,184	10,391

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

For the six months ended 30 September 2008 and 2009, all the Group's revenue is derived from the Group's operations in the investment in energy and precious metal resources related projects and investment in production of raw materials for power generation and construction of highways in the PRC and other countries. Accordingly, no other segment information is presented.

3. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 September 2008: 16.5%) of the estimated assessable profit for the period. No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profits derived from or arising in Hong Kong for the six months ended 30 September 2008 and 2009.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (six months ended 30 September 2008: 25%) for the six months ended 30 September 2009. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

No provision for PRC Enterprise Income Tax has been made as there were no assessable profits generated from the Group's PRC operation during the six months ended 30 September 2008 and 2009.

No deferred tax assets and liabilities are recognised in this unaudited condensed consolidated financial statements as the Group did not have material temporary differences between the tax bases of assets and liabilities and their carrying amounts as at 30 September 2008 and 2009.

4. LOSS FOR THE PERIOD

	Six months ended 30 September	
	2009	**2008**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Total comprehensive loss is stated after charging the following:		
Employee benefits expense		
– Directors' remuneration	1,851	1,818
– Other staff costs (excluding Directors' emoluments):		
– Salaries and other benefits	1,198	1,499
– Retirement benefits schemes contributions	60	12
	3,109	3,329
Depreciation for property, plant and equipment		
– Owned assets	130	144
– Leased assets	–	–
	130	144
Share options granted to consultants	–	960

5. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 September 2009 (six months ended 30 September 2008: Nil).

6. LOSS PER SHARE

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

	Six months ended 30 September	
	2009	**2008**
	(Unaudited)	**(Unaudited)**
Loss for the purpose of basic and diluted loss per share (loss for the period attributable to equity holders of the Company) (HK$)	6,117,000	2,340,000
Weighted average number of ordinary shares for the purpose of basic loss per share	1,606,540,699	1,286,163,158
Weighted average number of ordinary shares for the purpose of diluted loss per share	1,616,476,119	1,286,163,158

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

7. EXPLORATION AND EVALUATION ASSETS

As at 30 September 2009, the Group is the holder of exploration permits of 3 mines in the PRC, with a total exploration area covered by such exploration permits being 196.31 sq. km. The predominant resources in these 3 mines are various kinds of metals including copper and gold.

8. PROPERTY, PLANT AND EQUIPMENT

Movements of property, plant and equipment for the six months ended 30 September 2009:

	(Unaudited) *HK$'000*
Carrying amount as at 1 April 2009	733
Additions	1,513
Depreciation	(130)
Exchange adjustments	3
Carrying amount as at 30 September 2009	2,119

9. TRADE AND OTHER RECEIVABLES

	As at 30 September 2009 (Unaudited) *HK$'000*	**As at 31 March 2009 (audited)** *HK$'000*
Trade receivables	2,075	16,962
Prepayments, deposits and other receivables	9,578	64,908
	11,653	81,870

The Group allows an average credit period ranging from 30 to 90 days to its trade customers. Trade receivables are non-interest-bearing. The following is an ageing analysis of the trade receivables at the balance sheet date:

	As at 30 September 2009 (Unaudited) *HK$'000*	**As at 31 March 2009 (audited)** *HK$'000*
0 – 90 days	1,575	16,895
Over 90 days – 1 year	500	67
	2,075	16,962

10. TRADE AND OTHER PAYABLES

	As at 30 September 2009 (Unaudited)	**As at 31 March 2009 (audited)**
	HK$'000	*HK$'000*
Trade payables	1,729	15,312
Other payables and accruals	29,058	25,639
	30,787	40,951

The following is an ageing analysis of the trade payables at the balance sheet date:

	As at 30 September 2009 (Unaudited)	**As at 31 March 2009 (audited)**
	HK$'000	*HK$'000*
0 – 90 days	1,504	15,148
Over 90 days – 1 year	225	164
	1,729	15,312

11. CONVERTIBLE BONDS

The convertible bonds can be converted into a maximum of 1,818,181,813 ordinary shares of the Company at a conversion price of HK$0.075 per share. The convertible bonds are interest-free and will mature on 30 September 2014.

12. PROMISSORY NOTE

The promissory note is interest-bearing at 1.5% per annum and will mature on 30 September 2011.

13. SHARE CAPITAL

Ordinary shares of HK$0.01 each:	**Number of shares**	**Amount** *HK$*
Authorised:		
Ordinary shares of HK$0.01 each		
As at 31 March 2009 and 30 September 2009	20,000,000,000	200,000,000
Issued and fully paid:		
As at 1 April 2008	1,286,163,158	12,861,632
Issue of new shares *(Note (i))*	257,230,000	2,572,300
Exercise of share options *(Note (ii))*	24,000,000	240,000
As at 31 March 2009 and 1 April 2009	1,567,393,158	15,673,932
Exercise of share options *(Note (iii))*	144,000,000	1,440,000
As at 30 September 2009	1,711,393,158	17,113,932

Notes:

(i) On 19 September 2008, the Company announced that it had entered into the placing agreement dated 21 May 2008 (the "Placing Agreement"), which was supplemented by a few supplemental agreements, with a placing agent in relation to a placing of 257,230,000 shares at a price of HK$0.125 per share.

On 15 October 2008, the Company announced that the Placing Agreement lapsed on 15 October 2008 and the Company entered into a new placing agreement (the "New Placing Agreement") on the same day in relation to a placing of 257,230,000 shares at a price of HK$0.033 per share.

The completion of the New Placing Agreement took place on 25 February 2009 in accordance with the terms and conditions of the New Placing Agreement and an aggregate of 257,230,000 new shares had been successfully placed to not less than six placees at HK$0.033 per new share.

(ii) During the year ended 31 March 2009, 24,000,000 ordinary shares were issued upon the exercise of a total of 24,000,000 share options at an exercise price of HK$0.030, giving rise to an aggregate of net proceeds of HK$720,000.

(iii) During the six months ended 30 September 2009,

- 36,000,000 ordinary shares were issued upon the exercise of a total of 36,000,000 share options at an exercise price of HK$0.05, giving rise to an aggregate of net proceeds of HK$1,800,000;

- 24,000,000 ordinary shares were issued upon the exercise of a total of 24,000,000 share options at an exercise price of HK$0.12, giving rise to an aggregate of net proceeds of HK$2,880,000;

- 24,000,000 ordinary shares were issued upon the exercise of a total of 24,000,000 share options at an exercise price of HK$0.125, giving rise to an aggregate of net proceeds of HK$3,000,000;

- 12,000,000 ordinary shares were issued upon the exercise of a total of 12,000,000 share options at an exercise price of HK$0.136, giving rise to an aggregate of net proceeds of HK$1,632,000;

– 24,000,000 ordinary shares were issued upon the exercise of a total of 24,000,000 share options at an exercise price of HK$0.137, giving rise to an aggregate of net proceeds of HK$3,288,000; and

– 24,000,000 ordinary shares were issued upon the exercise of a total of 24,000,000 share options at an exercise price of HK$0.15, giving rise to an aggregate of net proceeds of HK$3,600,000.

14. OPERATING LEASE COMMITMENTS

As at 30 September 2009, the Group had commitments for future minimum leases payments under non-cancelable operating leases in respect of land and buildings which fall due as follows:

	As at 30 September 2009 (Unaudited) *HK$'000*	As at 31 March 2009 (Audited) *HK$'000*
Within one year	1,402	931
In the second to fifth years inclusive	1,116	185
	2,518	1,116

15. RELATED PARTY TRANSACTIONS

Save as disclosed in this interim report, the Group had entered into the following significant related party transactions during the six months ended 30 September 2009:

	Six months ended 30 September	
	2009 (Unaudited) *HK$'000*	2008 (Unaudited) *HK$'000*
Compensation to key management personnel		
Short-term employee benefits	1,832	1,800
Post-employment benefits	19	18
	1,851	1,818

The above related party transactions do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

4. STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business on 31 March 2010, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had no outstanding borrowings.

Contingent liabilities

As at 31 March 2010, the Enlarged Group had no significant contingent liabilities.

Capital and other commitments

As at 31 March 2010, the Enlarged Group had capital commitments in respect of (i) exploration and evaluation assets amounting to approximately HK$1,204,000, (ii) the investment in a joint venture company amounting to approximately HK$39,025,000; and (iii) the investment in a subsidiary amounting to approximately HK$1,000,000, of which all had been authorized and contracted but not provided for.

In addition, as at 31 March 2010, the Enlarged Group had operating lease commitments amounting to approximately HK$2,972,000.

Disclaimers

Save as disclosed above, as at the close of business on 31 March 2010, the Enlarged Group did not have any debt securities issued and outstanding or authorised or otherwise created but unissued, or term loans, other borrowings or indebtedness in the nature of borrowings including bank overdrafts, liabilities under acceptance (other than normal trade bills) or acceptance credits, hire purchase commitments, or mortgages, charges, guarantees or other material contingent liabilities.

5. WORKING CAPITAL

Taking into account the existing cash and bank balances, banking facilities and other internal resources available, the Directors, after due and careful enquiry, are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least two years from the date of this circular. The Enlarged Group will not have any material funding requirement for the two year period following the issue of this circular.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

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

31 May 2010

The Board of Directors
Sino Prosper State Gold Resources Holdings Limited
Unit 1702-04, 17/F., Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Favour South Limited (the "Target BVI") and its subsidiary (hereinafter collectively referred to as the "Target BVI Group") for the period from 30 July 2009 (date of incorporation) to 31 December 2009 (the "Relevant Period"), for inclusion in the circular dated 31 May 2010 (the "Circular") issued by Sino Prosper State Gold Resources Holdings Limited (the "Company") in connection with the major transaction in respect of the proposed acquisition (the "Acquisition") by Sino Prosper Mineral Products Limited (the "Purchaser"), a wholly-owned subsidiary of the Company, of the entire issued share capital of the Target BVI, and all the obligations, liabilities and debts owing or incurred by the Target BVI to the vendor, Mr. Hong Guang (the "Vendor"), an independent third party.

The Target BVI is a company incorporated in the British Virgin Islands on 30 July 2009 and is wholly and beneficially owned by the Vendor. The Target BVI is principally engaged in investment holding. At 31 December 2009, the sole asset of Target BVI is the entire issued capital of Great Surplus Investment Limited (the "Target HK"), which is expected to contribute and own 70% of the registered and paid up capital of 敖漢旗鑫瑞恩礦業有限責任公司 (the "PRC Company"). The addresses of the registered office and principal place of business of the Target BVI are P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands and 10th Floor, Chiyu Bank Building, 78 Des Voeux Road Central, Hong Kong. As at the date of this report, the Vendor is the legal and beneficial owner of the entire issued share capital of the Target BVI.

As at the date of this report, the Target BVI had the following subsidiaries, which are private companies with limited liability:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Attributable equity interests held by the Target BVI	Principal activities
Great Surplus Investment Limited	Limited liability company incorporated in Hong Kong on 22 October 2009	1 ordinary share of HK$1	100% (Direct)	Investment holding
敖漢旗鑫瑞恩礦業有限責任公司 (transliterated as Ao Han Qi Xin Rui En Mineral Industry Co., Ltd.) *(Note (i))*	Sino-foreign joint venture established in the People's Republic of China ("PRC") *(Note (ii))*	Registered capital of RMB3,641,130 *(Note (iii))*	70% (Indirect)	Gold mine exploitation, selection of gold and sale of mineral products (which are permitted by law, rules and regulations, requirements by State Affairs Office of the PRC and cannot engage in those not allowed as said)

Notes:

(i) The PRC Company was acquired by the Target BVI Group subsequent to 31 December 2009.

(ii) The PRC Company was a limited liability company established in the PRC on 17 August 2006 and became a sino-foreign joint venture established under the PRC laws on 3 February 2010.

(iii) The registered capital of the PRC Company is RMB10 million of which RMB3.64 million has been contributed. The Target HK is committed to contribute the outstanding registered capital of the PRC Company payable by the Target HK of RMB4.36 million (equivalent to approximately HK$4.95 million).

The financial year end date of the Target BVI is December 31. No audited financial statements have been prepared for Target BVI as the Target BVI was incorporated in a country where there is no statutory audit requirement.

The financial year end date of the Target HK is December 31. No audited financial statements have been prepared for Target HK as the Target HK was newly incorporated.

For the purpose of this report, the sole director of the Target BVI has prepared consolidated management accounts of the Target BVI Group for the Relevant Period in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have, for the purpose of this report, carried out appropriate audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Target BVI Group for the Relevant Period and the consolidated statement of financial position as at 31 December 2009 as set out in this report have been prepared based on the Underlying Financial Statements for the Relevant Period for the purpose of preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the sole director of the Target BVI who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the Target BVI Group as at 31 December 2009 and of the results and cash flows of the Target BVI Group for the Relevant Period.

Without qualifying our opinion, we draw attention to note 1 to the Financial Information set out in Appendix IIA below which indicates that at 31 December 2009 the Target BVI Group had net liabilities of HK$27,689 and the Target BVI Group incurred a net loss for the Relevant Period of HK$27,697. Accordingly, the Target BVI Group is reliant on the shareholder of the Target BVI for support in order to meet its existing short term financial obligations. The Financial Information has been prepared on a going concern basis on the assumptions that the shareholder will provide financial support to the Target BVI Group until the date of the Acquisition is completed and the Company will provide financial support to the Target BVI Group upon completion of the Acquisition. The validity of the Financial Information being prepared on a going concern basis depends upon the continuing financial support from the shareholder and the Company respectively before and after completion of the Acquisition. These matters, along with other matters as forth in note 1 below, indicate the existence of a material uncertainty which may cast doubt upon the Target BVI Group's ability to continue as a going concern. The Financial Information does not include any adjustments that would result from failure of such measures.

I. FINANCIAL INFORMATION

Consolidated statement of comprehensive income

	Notes	**Period from 30 July 2009 (date of incorporation) to 31 December 2009** *HK$*
Revenue	*5*	–
Other income	*7*	3
General and administrative expenses		(27,700)
Loss before tax		(27,697)
Income tax	*8*	–
Loss for the period and total comprehensive loss for the period	*9*	(27,697)

Consolidated statement of financial position

	Notes	At 31 December 2009 HK$
Current assets		
Bank balances	14	1,103,703
Current liabilities		
Other payables	15	17,400
Amount due to a shareholder	16	1,113,992
		1,131,392
Net liabilities		(27,689)
Capital and reserves		
Share capital	17	8
Accumulated losses		(27,697)
Total equity		(27,689)

Statement of changes in equity

	Attributable to owner of Target BVI		
	Share capital HK$	Accumulated losses HK$	Total equity HK$
At 30 July 2009 (date of incorporation)	–	–	–
Loss for the period	–	(27,697)	(27,697)
Total comprehensive loss for the period	–	(27,697)	(27,697)
Issue of ordinary share	8	–	8
At 31 December 2009	8	(27,697)	(27,689)

Consolidated statement of cash flows

	Period from 30 July 2009 (date of incorporation) to 31 December 2009
	HK$
Cash flows from operating activities	
Loss before tax	(27,697)
Adjustment for:	
Interest income	(3)
Movements in working capital	(27,700)
Other payables	17,400
Amount due to a shareholder	1,113,992
Cash generated from operations	1,103,692
Interest received	3
Net cash generated by operating activities	1,103,695
Cash flows from financing activities	
Proceeds from issue of ordinary share	8
Net cash generated by financing activities	8
Cash and cash equivalents at the end of period	1,103,703
Analysis of the balances of cash and cash equivalents	
Bank balances	1,103,703

Notes to the Financial Information

1. BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

The Financial Information has been prepared on the historical cost basis except as otherwise stated in the accounting policies set out below.

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information of the Target BVI Group is presented in Hong Kong dollars, which is the same as the functional currency of the Target BVI Group.

At 31 December 2009 the Target BVI Group had net liabilities of HK$27,689 and the Target BVI Group incurred a net loss for the Relevant Period of HK$27,697. Accordingly, as at the date of this report, the Target BVI Group is reliant on the shareholder for support in order to meet its existing short term financial obligations.

The director of the Target BVI is aware that, due to the above conditions, a material uncertainty exists which may cast doubt upon the Target BVI Group's ability to continue as a going concern. However, the director of the Target BVI is of the opinion that there is a reasonable expectation that the Target BVI Group will be able to continue as going concerns on the basis that the shareholder will continue to provide funding to the Target BVI Group up until the date of completion of the Acquisition and the Company will provide ongoing funding to the Target BVI Group upon completion of the Acquisition.

Consequently, the director of the Target BVI has concluded that the Target BVI Group will be able to continue as a going concern and have prepared the Financial Information on a going concern basis, which contemplates the continuity of normal business activity and the realization of assets and the settlement of liabilities in the normal course of business.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Target BVI Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective.

		Notes
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009	*1*
HKAS 24 (Revised)	Related Party Disclosures	*5*
HKAS 32 (Amendment)	Classification of Rights Issues	*3*
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters	*2*
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters	*4*
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions	*2*
HKFRS 9	Financial Instruments (relating to the classification and measurement of financial assets)	*6*
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement	*5*
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments	*4*

1. Amendments that are effective for annual periods beginning on or after 1 January 2010
2. Effective for annual periods beginning on or after 1 January 2010
3. Effective for annual periods beginning on or after 1 February 2010
4. Effective for annual periods beginning on or after 1 July 2010
5. Effective for annual periods beginning on or after 1 January 2011
6. Effective for annual periods beginning on or after 1 January 2013

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The Financial Information incorporate the financial statements of the Target BVI and entities controlled by the Target BVI (its subsidiaries). Control is achieved where the Target BVI has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the equity of the owner of the Target BVI.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Target BVI and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Target BVI Group's ownership interests in existing subsidiaries

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

When the Target BVI Group loses control over a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Target BVI had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to accumulated losses at the date when control is lost). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Revenue recognition

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

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as expenses when employees have rendered services entitling them to the contributions.

Taxation

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

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

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

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

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

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

Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, the Target BVI Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is indication that they may be impaired.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Cash and cash equivalents

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

Provisions

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

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

Financial instruments

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

Financial assets

The Target BVI Group's financial assets comprise those classified as loans and receivables. The accounting policy adopted is set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including bank balances) are measured at amortized cost using the effective interest method, less any impairment.

Impairment of financial assets

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

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

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities (including other payables and amount due to a shareholder) are subsequently measured at amortized cost using the effective interest method.

Equity instruments

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

Derecognition

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

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revisions and future periods if the revisions affect both current and future periods. However, there are no critical accounting estimates or assumptions used in the Financial Information that the director of the Target BVI expect will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

5. REVENUE

The Target BVI Group did not generate any revenue during the Relevant Period.

6. SEGMENT INFORMATION

The management reviews the Target BVI Group's internal financial reporting and other information and also obtains other relevant external information in order to assess performance and allocate resources and operating segment is identified with reference to these.

The management considers that the business of the Target BVI Group is organized in one operating segment as investment holding. Additional disclosure in relation to segment information is not presented as the management assesses the performance of the only operating segment identified based on the consistent information.

The total net segment income is equivalent to total comprehensive income for the period as shown in consolidated statement of comprehensive income and the total segment assets and total segment liabilities are equivalent to total assets and total liabilities as shown in the consolidated statement of financial position.

The Target BVI Group is domiciled in Hong Kong and its principal activity is investment holding. Substantially, all the assets and liabilities of the Target BVI Group are located in Hong Kong.

7. OTHER INCOME

	Period from 30 July 2009 (date of incorporation) to 31 December 2009
	HK$
Bank interest income	3

8. INCOME TAX

The Target BVI is an exempted company incorporated in the British Virgin Islands and, as such, is not liable for taxation in the British Virgin Islands.

No provision for Hong Kong Profits Tax has been made as the Target BVI and its subsidiary had no assessable profits derived from or arising in Hong Kong during the Relevant Period.

No deferred tax assets and liabilities are recognized in the Financial Information as the Target BVI Group did not have material temporary differences arising between the tax bases of assets and liabilities and their carrying amounts at 31 December 2009.

9. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging:

	Period from 30 July 2009 (date of incorporation) to 31 December 2009
	HK$
Auditors' remuneration	–
Employee benefits expense	
– Director's remuneration	–
– Other staff cost	–
Preliminary expenses	19,000

10. DIRECTOR'S EMOLUMENTS

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

	Fees	**Salaries and allowances**	**Contribution to retirement benefits scheme**	**Total**
	HK$	*HK$*	*HK$*	*HK$*
For the period from 30 July 2009 (date of incorporation) to 31 December 2009				
Hong Guang *(Note (i))*	–	–	–	–

Note:

(i) Appointed on 30 October 2009

During the Relevant Period, there was no arrangements under which the director of the Target BVI waived or agreed to waive any remuneration.

During the Relevant Period, no emolument was paid by the Target BVI Group to the director as an inducement to join or upon joining the Target BVI Group or as compensation for loss of office.

Compensation to key management personnel

The director of the Target BVI considers that the director is the only key management personnel of the Target BVI Group.

11. EMPLOYEES' EMOLUMENTS

No employee's emolument was paid by the Target BVI Group during the Relevant Period.

12. DIVIDENDS

No dividends have been paid or proposed by the Target BVI during the Relevant Period.

13. LOSS PER SHARE

Loss per share has not been presented as such information is not considered meaningful for the purpose of this report.

14. BANK BALANCES

Bank balances comprise cash held by the Target BVI Group that earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy bank with no recent history of default.

15. OTHER PAYABLES

	At 31 December 2009 *HK$*
Other payables	17,400

Other payables are non-interest bearing.

16. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder is unsecured, interest-free and repayable on demand.

17. SHARE CAPITAL

	At 31 December 2009
Authorized:	
50,000 ordinary shares of US$1 each	US$50,000
Issued and fully paid:	
1 ordinary share of US$1	HK$8

On 30 July 2009, the Target BVI was incorporated with an initial authorized share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. Upon incorporation, the Target BVI issued 1 ordinary share of US$1 at par to the subscriber as the capital base of the Target BVI.

18. CAPITAL RISK MANAGEMENT

The Target BVI Group manages its capital to ensure that the entities in the Target BVI Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Target BVI Group consists of bank balances and equity attributable to owner of the Target BVI, comprising share capital and accumulated losses.

The management reviews the capital structure regularly. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Target BVI Group will balance its overall capital structure through the payment of dividends and the issue of new shares.

19. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	At 31 December 2009 *HK$*
Financial assets	
Loans and receivables	
Bank balances	1,103,703
Financial liabilities	
Financial liabilities at amortized cost	
Other payables	17,400
Amount due to a shareholder	1,113,992

(b) Financial risk management objectives and policies

The Target BVI Group's major financial instruments include bank balances, other payables and amount due to a shareholder. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

There has been no change to the Target BVI Group's exposure to market risk or the manner in which it manages and measures the risk.

Foreign currency risk

The director of the Target BVI considers that the Target BVI Group is not exposed to significant foreign currency risk.

Interest rate risk

The Target BVI Group's cash flow interest rate risk primarily relates to variable-rate bank balances. The Target BVI Group has not used any interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

Price risk

As the Target BVI Group has no significant investments in financial instruments at fair value, the Target BVI Group is not exposed to significant price risk.

Credit risk

The Target BVI Group has no significant credit risk, including risk resulting from counterparty default and risk of concentration. The Target BVI Group has policies in place for the control and monitoring of such credit risk.

Liquidity risk

The liquidity of the Target BVI Group is managed and monitored by maintaining sufficient cash balances. The director of the Target BVI considers that the Target BVI Group does not have significant liquidity risk.

All the Target BVI Group's financial liabilities are repayable on demand. In the opinion of the director of the Target BVI, the preparation of maturity profile is not necessary.

(c) Fair value of financial instruments

The director of the Target BVI considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Financial Information approximate their fair values.

20. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Financial Information, the Target BVI Group did not enter into any other significant related party transactions during the Relevant Period.

II. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in the Financial Information, no other significant event took place subsequent to 31 December 2009.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target BVI Group have been prepared in respect of any period subsequent to 31 December 2009.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

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

31 May 2010

The Board of Directors
Sino Prosper State Gold Resources Holdings Limited
Unit 1702-04, 17/F., Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding 敖漢旗鑫瑞恩礦業有限責任公司 (transliterated as Ao Han Qi Xin Rui En Mineral Industry Co., Ltd.) (the "PRC Company") for the years ended 31 December 2007, 2008 and 2009 (the "Relevant Periods"), for inclusion in the circular dated 31 May 2010 (the "Circular") issued by Sino Prosper State Gold Resources Holdings Limited (the "Company") in connection with the major transaction in respect of the proposed acquisition (the "Acquisition") by Sino Prosper Mineral Products Limited (the "Purchaser"), a wholly-owned subsidiary of the Company, of the entire issued share capital of Favour South Limited (the "Target BVI"), and all the obligations, liabilities and debts owing or incurred by the Target BVI to the vendor, Mr. Hong Guang (the "Vendor"), an independent third party.

The PRC Company was a limited liability company established in the People's Republic of China ("PRC") on 17 August 2006 and became a sino-foreign joint venture established under the PRC laws on 3 February 2010. The PRC Company is principally engaged in the gold mine exploitation, selection of gold and sale of mineral products (which are permitted by law, rules and regulations, requirements by State Affairs Office of the PRC and cannot engage in those not allowed as said). The address of the registered office and principal place of business of the PRC Company is Jinchanggouliang Village, Jinchanggouliang Town, Aohanqi, Chifeng City, Inner Mongolia Autonomous Region, China 內蒙古自治區赤峰市敖漢旗金厂溝梁鎮金厂溝梁村.

As at 31 December 2009, the PRC Company was owned by an independent third party. The then registered and paid up capital of the PRC Company was RMB1,000,000. In November 2009, Great Surplus Investment Limited (the "Target HK") entered into a capital increase and subscription agreement with the independent third party pursuant to which the Target HK has agreed to contribute RMB7 million (equivalent to approximately HK$7.9 million) to acquire 70% equity interests in the

PRC Company. In January 2010, the Target HK has made capital contribution of RMB2.64 million (equivalent to approximately HK$3 million) to the PRC Company. Pursuant to the terms of the agreement dated 23 January 2010 and entered into between the Purchaser and the Vendor in respect of the Acquisition (the "Acquisition Agreement"), after completion of the Acquisition, the Company and its subsidiaries (the "Group") are required to contribute the outstanding registered capital of the PRC Company payable by the Target HK of RMB4.36 million (equivalent to approximately HK$4.95 million) and the independent third party is required to contribute additional RMB2 million (equivalent to approximately HK$2.27 million). Subsequent to the subscription of the capital in PRC Company by the Target HK, the registered capital and the total investment of the PRC Company are RMB10 million (equivalent to approximately HK$11.36 million) and RMB14.28 million (equivalent to approximately HK$16.23 million) respectively.

The financial year end date of the PRC Company is December 31. The financial statements of the PRC Company for the period from 1 September 2006 to 31 December 2009 were prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC. The financial statements of the PRC Company for the period from 1 September 2006 to 31 December 2009 were audited by HongAn Certified Public Accountants Co., Ltd., certified public accountants registered in the PRC.

For the purpose of this report, the sole director of the PRC Company has prepared management accounts of the PRC Company for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have, for the purpose of this report, carried out appropriate audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The statement of comprehensive income, statement of changes in equity and statement of cash flows of the PRC Company for the Relevant Periods and the statement of financial position as at 31 December 2007, 2008 and 2009 as set out in this report have been prepared based on the Underlying Financial Statements for the Relevant Periods for the purpose of preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the sole director of the PRC Company who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the PRC Company as at 31 December 2007, 2008 and 2009 and of the results and cash flows of the PRC Company for the Relevant Periods.

Without qualifying our opinion, we draw attention to note 1 to the Financial Information set out in Appendix IIB below which indicates that at 31 December 2007, 2008 and 2009 the PRC Company had net liabilities of HK$36,404, HK$1,185,230 and HK$3,616,245 respectively and excess of current liabilities over current assets of HK$5,343,038, HK$9,633,230 and HK$15,008,336 respectively. In addition, the PRC Company incurred a net loss of HK$299,560, HK$1,148,826 and HK$2,431,015 for the years ended 31 December 2007, 2008 and 2009 respectively. Accordingly, the PRC Company is reliant on the registered owner of the PRC Company for support in order to meet its existing short term financial obligations. The Financial Information has been prepared on a going concern basis on the assumptions that the registered owner will provide financial support to the PRC Company until the date of the Acquisition is completed and the Company will provide financial support to the PRC Company upon completion of the Acquisition. The validity of the Financial Information being prepared on a going concern basis depends upon the continuing financial support from the registered owner and the Company respectively before and after completion of the Acquisition. These matters, along with other matters as forth in note 1 below, indicate the existence of a material uncertainty which may cast doubt upon the PRC Company's ability to continue as a going concern. The Financial Information does not include any adjustments that would result from failure of such measures.

I. FINANCIAL INFORMATION

Statement of comprehensive income

	Notes	Year ended 31 December 2007 HK$	Year ended 31 December 2008 HK$	Year ended 31 December 2009 HK$
Revenue	5	–	–	–
Other income	7	56,692	288,386	541,727
General and administrative expenses		(363,626)	(1,426,379)	(2,966,613)
Loss before tax		(306,934)	(1,137,993)	(2,424,886)
Income tax	8	–	–	–
Loss for the year	9	(306,934)	(1,137,993)	(2,424,886)
Other comprehensive income/(loss)				
Currency translation differences		7,374	(10,833)	(6,129)
Other comprehensive income/(loss) for the year, net of tax		7,374	(10,833)	(6,129)
Total comprehensive loss for the year		(299,560)	(1,148,826)	(2,431,015)

Statement of financial position

	Notes	At 31 December 2007 HK$	At 31 December 2008 HK$	At 31 December 2009 HK$
Non-current assets				
Exploration and evaluation assets	14	464,565	633,746	–
Mining rights	15	–	–	714,718
Property, plant and equipment	16	4,842,069	7,814,254	10,677,373
		5,306,634	8,448,000	11,392,091
Current assets				
Other receivables	17	1,015,344	854,469	830,950
Bank balances and cash	18	950,305	252,233	247,113
		1,965,649	1,106,702	1,078,063
Current liabilities				
Other payables	19	266,859	876,183	2,969,089
Amount due to a registered owner	20	7,041,828	9,863,749	13,117,310
		7,308,687	10,739,932	16,086,399
Net current liabilities		(5,343,038)	(9,633,230)	(15,008,336)
Net liabilities		(36,404)	(1,185,230)	(3,616,245)
Capital and reserves				
Paid up capital	21	971,250	971,250	971,250
Reserves		(1,007,654)	(2,156,480)	(4,587,495)
Total equity		(36,404)	(1,185,230)	(3,616,245)

Statement of changes in equity

	Attributable to owner of PRC Company			
	Paid up capital	**Translation reserve**	**Accumulated losses**	**Total equity**
	HK$	*HK$*	*HK$*	*HK$*
At 1 January 2007	971,250	17,249	(725,343)	263,156
Loss for the year	–	–	(306,934)	(306,934)
Other comprehensive income for the year	–	7,374	–	7,374
Total comprehensive loss for the year	–	7,374	(306,934)	(299,560)
At 31 December 2007	971,250	24,623	(1,032,277)	(36,404)
Loss for the year	–	–	(1,137,993)	(1,137,993)
Other comprehensive loss for the year	–	(10,833)	–	(10,833)
Total comprehensive loss for the year	–	(10,833)	(1,137,993)	(1,148,826)
At 31 December 2008	971,250	13,790	(2,170,270)	(1,185,230)
Loss for the year	–	–	(2,424,886)	(2,424,886)
Other comprehensive loss for the year	–	(6,129)	–	(6,129)
Total comprehensive loss for the year	–	(6,129)	(2,424,886)	(2,431,015)
At 31 December 2009	971,250	7,661	(4,595,156)	(3,616,245)

Statement of cash flows

	Year ended 31 December 2007 *HK$*	Year ended 31 December 2008 *HK$*	Year ended 31 December 2009 *HK$*
Cash flows from operating activities			
Loss before tax	(306,934)	(1,137,993)	(2,424,886)
Adjustments for:			
Amortization of mining rights	–	–	173,610
Depreciation of property, plant and equipment	1,233	5,050	6,345
Impairment loss recognized on other receivables	–	415,181	–
Movements in working capital	(305,701)	(717,762)	(2,244,931)
Other receivables	(425,934)	(254,306)	23,519
Other payables	140,069	609,324	2,092,906
Amount due to a registered owner	3,096,648	2,821,921	3,253,561
Net cash generated by operating activities	2,505,082	2,459,177	3,125,055
Cash flows from investing activities			
Payments for property, plant and equipment	(1,495,246)	(2,666,720)	(2,842,062)
Payments for exploration and evaluation assets	(32,001)	(141,330)	(252,586)
Net cash used in investing activities	(1,527,247)	(2,808,050)	(3,094,648)
Net increase/(decrease) in cash and cash equivalents	977,835	(348,873)	30,407
Cash and cash equivalents at the beginning of year	272,985	950,305	252,233
Effect of foreign exchange rate changes, net	(300,515)	(349,199)	(35,527)
Cash and cash equivalents at the end of year	950,305	252,233	247,113
Analysis of the balances of cash and cash equivalents			
Bank balances and cash	950,305	252,233	247,113

Notes to the Financial Information

1. BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

The Financial Information has been prepared on the historical cost basis except as otherwise stated in the accounting policies set out below.

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information of the PRC Company is presented in Hong Kong dollars ("HK$"), whereas the functional currency of the PRC Company is Renminbi ("RMB").

At 31 December 2007, 2008 and 2009 the PRC Company had net liabilities of HK$36,404, HK$1,185,230 and HK$3,616,245 respectively and excess of current liabilities over current assets of HK$5,343,038, HK$9,633,230 and HK$15,008,336 respectively. In addition, the PRC Company incurred a net loss of HK$299,560, HK$1,148,826 and HK$2,431,015 for the years ended 31 December 2007, 2008 and 2009 respectively. Accordingly, as at the date of this report, the PRC Company is reliant on the registered owner for support in order to meet its existing short term financial obligations.

The director of the PRC Company is aware that, due to the above conditions, a material uncertainty exists which may cast doubt upon the PRC Company's ability to continue as a going concern. However, the director of the PRC Company is of the opinion that there is a reasonable expectation that the PRC Company will be able to continue as going concerns on the basis that the registered owner will continue to provide funding to the PRC Company up until the date of completion of the Acquisition and the Company will provide ongoing funding to the PRC Company upon completion of the Acquisition.

Consequently, the director of the PRC Company has concluded that the PRC Company will be able to continue as a going concern and have prepared the Financial Information on a going concern basis, which contemplates the continuity of normal business activity and the realization of assets and the settlement of liabilities in the normal course of business.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the PRC Company has consistently applied HKFRSs, Hong Kong Accounting Standards ("HKAS(s)"), amendments and interpretations ("INT") issued by the HKICPA that are effective for the annual accounting periods beginning on or after 1 January 2009.

The PRC Company has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Rental income from leasing of mining licenses is recognized on a straight-line basis over the terms of the leasing agreements.

Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	:	5 – 20%
Plant and equipment	:	10 – 50%
Office equipment	:	20 – 33 $^{1}/_{3}$%

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment determined as the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less impairment losses. Exploration and evaluation assets are mainly comprised by cost to acquire exploration rights, expenditures incurred during topographical exploration process, including topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies. If any project is abandoned, the total expenditure thereon will be written off to the statement of comprehensive income.

Mining rights

Mining rights are stated at cost less accumulated amortization and any impairment losses. Mining rights include the cost of acquiring mining licences and exploration and evaluation costs transferred from exploration rights. The mining rights are amortized over the term of the mining licence. Mining rights are written off to the statement of comprehensive income if the mining property is abandoned.

Leasing

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

The PRC Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the exchange differences are recognized directly in other comprehensive income.

For the purposes of presenting the Financial Information, the assets and liabilities of the PRC Company are translated into the presentation currency of the PRC Company (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case, the exchange rates at the dates of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of translation reserve.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

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

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

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

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

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

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the PRC Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is indication that they may be impaired.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Cash and cash equivalents

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

Provisions

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

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

Financial instruments

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

Financial assets

The PRC Company's financial assets comprise those classified as loans and receivables. The accounting policy adopted is set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including other receivables and bank balances and cash) are measured at amortized cost using the effective interest method, less any impairment.

Impairment of financial assets

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

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

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the PRC Company after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities (including other payables and amount due to a registered owner) are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

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

Derecognition

The PRC Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when a financial asset is transferred, the PRC Company has transferred substantially all the risks and rewards of ownership of the asset to another entity. If the PRC Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the PRC Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the PRC Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the PRC Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

The PRC Company derecognizes financial liabilities when, and only when, the PRC Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revisions and future periods if the revisions affect both current and future periods.

Key sources of estimation uncertainty

Impairment of exploration and evaluation assets

The application of the PRC Company's accounting policy for exploration and evaluation assets requires judgment in determining whether it is likely that future economic benefits will result, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the statement of comprehensive income in the period when the new information becomes available.

Impairment of mining rights

The PRC Company assesses whether there are any indicators of impairment for mining rights at the end of each reporting period. Mining rights are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present values of those cash flows.

Impairment loss of other receivables

The PRC Company's policy for doubtful receivables is based on the on-going evaluation of the collectability and aging analysis of the other receivables and on management's judgments. Considerable judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of the PRC Company's debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss of other receivables may be required.

5. REVENUE

The PRC Company did not generate any revenue during the Relevant Periods.

6. SEGMENT INFORMATION

The management reviews the PRC Company's internal financial reporting and other information and also obtains other relevant external information in order to assess performance and allocate resources and operating segment is identified with reference to these.

The management considers that the business of the PRC Company is organized in one operating segment as gold mine exploitation, selection of gold and sale of mineral products. Additional disclosure in relation to segment information is not presented as the management assesses the performance of the only operating segment identified based on the consistent information.

The total net segment income is equivalent to total comprehensive income for the year as shown in statement of comprehensive income and the total segment assets and total segment liabilities are equivalent to total assets and total liabilities as shown in the statement of financial position.

Details of depreciation and amortization in relation to the operating segment are disclosed in note 9 below.

The PRC Company is established in the PRC with its major operations in the PRC. Substantially all the assets and liabilities of the PRC Company are located in the PRC.

7. OTHER INCOME

	Year ended 31 December 2007 *HK$*	Year ended 31 December 2008 *HK$*	Year ended 31 December 2009 *HK$*
Rental income from leasing of mining licenses	–	–	335,616
Other income	56,692	288,386	206,111
	56,692	288,386	541,727

8. INCOME TAX

The PRC Company was subject to PRC Enterprise Income Tax at a rate of 33% for the year ended 31 December 2007 and 25% for the years ended 31 December 2008 and 2009. No provision for PRC Enterprise Income Tax has been made as the PRC Company did not generate any taxable profit in the PRC during the Relevant Periods.

No deferred tax assets and liabilities are recognized in the Financial Information as the PRC Company did not have material temporary differences arising between the tax bases of assets and liabilities and their carrying amounts at 31 December 2007, 2008 and 2009.

9. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	Year ended 31 December 2007 *HK$*	Year ended 31 December 2008 *HK$*	Year ended 31 December 2009 *HK$*
Auditors' remuneration	–	–	–
Employee benefits expense			
Salaries and other benefits	528,187	1,373,347	1,654,089
Contributions to retirement benefits scheme	174,279	561,377	699,894
	702,466	1,934,724	2,353,983
Less: Amounts capitalized in construction in progress	(630,833)	(1,645,857)	(1,962,439)
	71,633	288,867	391,544
Amortization of mining rights	–	–	173,610
Depreciation of property, plant and equipment	1,233	5,050	6,345
Impairment loss recognized on other receivables	–	415,181	–

10. DIRECTOR'S EMOLUMENTS

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

	Fees	Salaries and allowances	Contribution to retirement benefits scheme	Total
	HK$	*HK$*	*HK$*	*HK$*
Year ended 31 December 2007				
王恩民 *(Note (i))*	–	–	–	–
Year ended 31 December 2008				
王恩民 *(Note (i))*	–	–	–	–
Year ended 31 December 2009				
王恩民 *(Note (i))*	–	–	–	–

Note:

(i) Appointed on 17 August 2006

During the Relevant Periods, there was no arrangements under which the director of the PRC Company waived or agreed to waive any remuneration.

During the Relevant Periods, no emolument was paid by the PRC Company to the director as an inducement to join or upon joining the PRC Company or as compensation for loss of office.

Compensation to key management personnel

The director of the PRC Company considers that the director is the only key management personnel of the PRC Company.

11. EMPLOYEES' EMOLUMENTS

No emoluments were paid or payable to the director for each of the three years ended 31 December 2009. Of the five individuals with the highest emoluments in the PRC Company during the Relevant Periods, which fell within the salary band of Nil – HK$1 million, were as follows:

	Year ended 31 December 2007	Year ended 31 December 2008	Year ended 31 December 2009
	HK$	*HK$*	*HK$*
Salaries and other benefits	95,765	216,903	152,513
Contribution to retirement benefits scheme	41,658	94,353	66,343
Total emoluments	137,423	311,256	218,856

During the Relevant Periods, no emoluments were paid by the PRC Company to the five highest paid individuals, including director, as an inducement to join or upon joining the PRC Company or as compensation for loss of office.

12. DIVIDENDS

No dividends have been paid or proposed by the PRC Company during the Relevant Periods.

13. LOSS PER SHARE

Loss per share has not been presented as such information is not considered meaningful for the purpose of this report.

14. EXPLORATION AND EVALUATION ASSETS

	HK$
At cost	
At 1 January 2007	403,391
Additions	32,001
Exchange adjustments	29,173
At 31 December 2007	464,565
Additions	141,330
Exchange adjustments	27,851
At 31 December 2008	633,746
Additions	252,586
Exchange adjustments	1,996
Transferred to mining rights	(888,328)
At 31 December 2009	–

15. MINING RIGHTS

	HK$
At cost	
At 1 January 2007, 31 December 2007 and 2008	–
Transferred from exploration and evaluation assets	888,328
At 31 December 2009	888,328
Amortization and impairment	
At 1 January 2007, 31 December 2007 and 2008	–
Amortization provided for the year	173,610
At 31 December 2009	173,610
Carrying amounts	
At 31 December 2007	–
At 31 December 2008	–
At 31 December 2009	714,718

The mining rights represent the rights to conduct mining activities in the gold mine located at Gouliang Town, Aohanqi, Inner Mongolia Autonomous Region, the PRC.

The mining rights are amortized over the initial license period.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Plant and machinery	Office equipment	Construction in progress	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Cost					
At 1 January 2007	243,861	2,439,330	3,780	425,110	3,112,081
Exchange adjustments	21,661	176,958	274	96,274	295,167
Additions	105,978	14,383	–	1,725,410	1,845,771
At 31 December 2007	371,500	2,630,671	4,054	2,246,794	5,253,019
Exchange adjustments	22,273	158,696	374	156,893	338,236
Additions	–	129,183	17,393	2,920,978	3,067,554
At 31 December 2008	393,773	2,918,550	21,821	5,324,665	8,658,809
Exchange adjustments	1,241	9,207	69	19,960	30,477
Additions	1,625	18,129	–	3,236,272	3,256,026
At 31 December 2009	396,639	2,945,886	21,890	8,580,897	11,945,312
Depreciation and impairment					
At 1 January 2007	5,134	37,458	149	–	42,741
Exchange adjustments	1,677	14,740	34	–	16,451
Provision for the year	34,390	316,751	617	–	351,758
At 31 December 2007	41,201	368,949	800	–	410,950
Exchange adjustments	2,759	24,881	81	–	27,721
Provision for the year	38,033	363,475	4,376	–	405,884
At 31 December 2008	81,993	757,305	5,257	–	844,555
Exchange adjustments	296	2,756	23	–	3,075
Provision for the year	38,416	376,228	5,665	–	420,309
At 31 December 2009	120,705	1,136,289	10,945	–	1,267,939
Carrying amounts					
At 31 December 2007	330,299	2,261,722	3,254	2,246,794	4,842,069
At 31 December 2008	311,780	2,161,245	16,564	5,324,665	7,814,254
At 31 December 2009	275,934	1,809,597	10,945	8,580,897	10,677,373

Note: Depreciation of leasehold improvements, plant and machinery and office equipment of approximately HK$1,233, HK$5,050 and HK$6,345 for the years ended 31 December 2007, 2008 and 2009 respectively has been charged in general and administrative expenses. Depreciation of approximately HK$350,525, HK$400,834 and HK$413,964 for the years ended 31 December 2007, 2008 and 2009 respectively has been capitalized in construction in progress.

17. OTHER RECEIVABLES

	At 31 December 2007	At 31 December 2008	At 31 December 2009
	HK$	*HK$*	*HK$*
Deposits and prepayment	59,948	220,042	779,199
Other receivables	955,396	634,427	51,751
	1,015,344	854,469	830,950

18. BANK BALANCES AND CASH

At 31 December 2007, 2008 and 2009, bank balances and cash of HK$950,305, HK$252,233 and HK$247,113 respectively were denominated in RMB which is not freely convertible into other currencies.

Bank balances comprise cash held by the PRC Company that earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy bank with no recent history of default.

19. OTHER PAYABLES

	At 31 December 2007	At 31 December 2008	At 31 December 2009
	HK$	*HK$*	*HK$*
Other payables and accruals	266,859	876,183	2,782,645
Receipt in advance	–	–	186,444
	266,859	876,183	2,969,089

Other payables are non-interest-bearing.

20. AMOUNT DUE TO A REGISTERED OWNER

The amount due to a registered owner is unsecured, interest-free and repayable on demand.

21. PAID UP CAPITAL

	At 31 December 2007	At 31 December 2008	At 31 December 2009
	HK$	*HK$*	*HK$*
Registered capital of RMB1,000,000	971,250	971,250	971,250

22. CAPITAL RISK MANAGEMENT

The PRC Company manages its capital to ensure that the PRC Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the PRC Company consists of cash and cash equivalents and equity attributable to owner of the PRC Company, comprising paid up capital, reserves and accumulated losses.

The management reviews the capital structure regularly. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the PRC Company will balance its overall capital structure through the payment of dividends.

23. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	At 31 December 2007	At 31 December 2008	At 31 December 2009
	HK$	*HK$*	*HK$*
Financial assets			
Loans and receivables			
Financial assets included in other receivables	1,015,131	810,806	791,250
Bank balances and cash	950,305	252,233	247,113
Financial liabilities			
Financial liabilities at amortized cost:			
Financial liabilities included in other payables	266,859	876,183	2,782,645
Amount due to a registered owner	7,041,828	9,863,749	13,117,310

(b) Financial risk management objectives and policies

The PRC Company's major financial instruments include other receivables, bank balances and cash, other payables and amount due to a registered owner. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

There has been no change to the PRC Company's exposure to market risk or the manner in which it manages and measures the risk.

Foreign currency risk

The director of the PRC Company considers that the PRC Company is not exposed to significant foreign currency risk.

Interest rate risk

The PRC Company's cash flow interest rate risk primarily relates to variable-rate bank balances. The PRC Company has not used any interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

Price risk

As the PRC Company has no significant investments in financial investments at fair value, the PRC Company is not exposed to significant price risk.

Credit risk

The PRC Company has no significant credit risk, including risk resulting from counterparty default and risk of concentration. The PRC Company has policies in place for the control and monitoring of such credit risk.

Liquidity risk

The liquidity of the PRC Company is managed and monitored by maintaining sufficient cash balances. The director of the PRC Company considers that the PRC Company does not have significant liquidity risk.

All the PRC Company's financial liabilities are repayable on demand. In the opinion of the director of the PRC Company, the preparation of maturity profile is not necessary.

(c) Fair value of financial instruments

The director of the PRC Company considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Financial Information approximate their fair values.

24. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Financial Information, the PRC Company did not enter into any other significant related party transactions during the Relevant Periods.

II. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in the Financial Information, no other significant event took place subsequent to 31 December 2009.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the PRC Company have been prepared in respect of any period subsequent to 31 December 2009.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The accompanying unaudited pro forma consolidated statement of financial position of the Enlarged Group (the "Pro Forma Financial Information") has been prepared by the Directors to illustrate the effect of the proposed Acquisition.

The Pro Forma Financial Information has been prepared as if the proposed Acquisition had been completed on 30 September 2009 and is based on (i) the unaudited consolidated statement of financial position of the Group as at 30 September 2009 as set out in Appendix I to this circular; (ii) the audited consolidated statement of financial position of Target BVI Group as at 31 December 2009 as set out in Appendix IIA to this circular; and (iii) the audited statement of financial position of the PRC Company as at 31 December 2009 as set out in Appendix IIB to this circular, after making pro forma adjustments that are (i) directly attributable to the proposed Acquisition and not relating to future events or decisions; and (ii) factually supportable.

The Pro Forma Financial Information has been prepared for illustrative purposes only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 30 September 2009 or any future date.

	The Group as at 30 September 2009	Target BVI Group as at 31 December 2009	PRC Company as at 31 December 2009	Pro forma adjustment	Pro forma adjustment	Pro forma adjustment	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	
Non-current assets							
Exploration and evaluation assets	634,707	–	–				634,707
Mining rights	–	–	715	167,045	(10,205)	72,009	229,564
Property, plant and equipment	2,119	–	10,677				12,796
	636,826	–	11,392				877,067
Current assets							
Trade and other receivables	11,653	–	831				12,484
Amounts due from minority shareholders	2,815	–	–				2,815
Bank balances and cash	297,888	1,104	247	(167,045) (5,000) 9,091		2,273	138,558
	312,356	1,104	1,078				153,857
Current liabilities							
Trade and other payables	30,787	17	2,969				33,773
Amount due to a shareholder	–	1,114	13,117	9,091	(10,205)		13,117
Tax liabilities	355	–	–				355
	31,142	1,131	16,086				47,245
Net current assets/(liabilities)	281,214	(27)	(15,008)				106,612
Total assets less current liabilities	918,040	(27)	(3,616)				983,679
Non-current liabilities							
Convertible bonds	125,836	–	–				125,836
Promissory note	272,727	–	–				272,727
	398,563	–	–				398,563
Net assets/(liabilities)	519,477	(27)	(3,616)				585,116
Capital and reserves							
Share capital	17,114	–	971			(971)	17,114
Share premium and reserves	276,320	(27)	(4,587)	(5,000)		4,614	271,320
Equity attributable to equity holders of the Company	293,434	(27)	(3,616)				288,434
Minority interests	226,043	–	–			70,639	296,682
Total equity	519,477	(27)	(3,616)				585,116

NOTES TO THE PRO FORMA FINANCIAL INFORMATION:

1. The balances have been extracted from the unaudited consolidated statement of financial position of the Group as at 30 September 2009 as shown in the published interim report of the Company for the six months period ended 30 September 2009 as set out in Appendix I to this circular.

2. The adjustment reflects the inclusion of the assets, liabilities and equity of Target BVI Group as if the proposed Acquisition had been completed on 30 September 2009. The balances have been extracted from the audited consolidated statement of financial position of Target BVI Group as at 31 December 2009 as set out in Appendix IIA to this circular.

3. The adjustment reflects the inclusion of the assets, liabilities and equity of the PRC Company as if the proposed Acquisition had been completed on 30 September 2009. The balances have been extracted from the audited statement of financial position of the PRC Company as at 31 December 2009 as set out in Appendix IIB to this circular.

4. Pursuant to the terms of the Acquisition Agreement, the Consideration for the proposed Acquisition of RMB147,000,000 (equivalent to approximately HK$167,045,454) shall be settled in the following manner:

   (i) HK$3,000,000 has been paid within three business days after the entering into the Acquisition Agreement by the Purchaser by way of cashier order (or other payment method agreed by both parties) to the Vendor (or other person nominated by the Vendor in writing) together with the RMB1,000,000 deposit already paid by the Vendor to the PRC Company (or such other designated person) at the time of entering into the Framework Agreement which totaling RMB3,640,000 (equivalent to approximately HK$4,136,364). The Vendor must apply the said deposit as shareholder's loan to Target BVI (then through Target HK) to inject into the PRC Company as registered capital;

   (ii) HK$131,090,908 (part of the Consideration) shall be paid upon Completion by the Purchaser by way of cashier order (or bank transfer, or other payment method agreed by both parties) to the Vendor (or other person nominated by the Vendor in writing). The Vendor must apply HK$4,954,545 (equivalent to approximately RMB4,360,000) out of the Consideration as shareholder's loan to Target BVI (then through Target HK) to inject into the PRC Company as registered capital; and

   (iii) HK$31,818,182 shall be paid by the Purchaser to the Vendor by way of cashier order (or bank transfer, or other payment method agreed by both parties) after Completion and within 10 business days after obtaining the approvals relating to the change of the directors and the legal representative of the PRC Company from the relevant PRC governmental department(s), the registration of particulars contained in the business license issued by the Administration for Industry and Commerce (which license states the paid-up capital of the PRC Company to be RMB10,000,000) and the approval obtained from the Department of Commerce of Inner Mongolia Autonomous Region to increase the registered capital of the PRC Company to RMB50,000,000.

   The adjustments reflect (i) the estimated fair value of the Consideration for the proposed Acquisition of RMB147,000,000 (equivalent to approximately HK$167,045,454); (ii) the payment of the estimated costs directly attributable to the proposed Acquisition of approximately HK$5,000,000 by the Group from its internal resources; and (iii) that the Vendor applied part of the Consideration as shareholder's loan to Target BVI (then through Target HK) to inject into the PRC Company as registered capital, as if the proposed Acquisition had been completed on 30 September 2009.

   Since the actual dates of settlement of the total Consideration for the proposed Acquisition and the estimated costs directly attributable to the proposed Acquisition would be different from the assumptions used in the preparation of the Pro Forma Financial Information, the actual financial position arising from the proposed Acquisition might be materially different from the financial position as shown in this Appendix.

5. The adjustment reflects the acquisition of Sale Loan (being all obligations, liabilities and debts owing or incurred by Target BVI to the Vendor on or at any time prior to the Completion), as if the Acquisition had been completed at the date reported on.

6. The adjustment reflects:

   (i) elimination of the share capital and pre-acquisition reserves of the Target Group, as if the Acquisition had been completed at the date reported on; and

   (ii) recognition of 30% minority interests of the PRC Company.

   For the purpose of the preparation of the unaudited pro forma consolidated statement of financial position, it has been assumed that:

   (i) the fair value of the identifiable assets and liabilities of Target BVI Group as at 31 December 2009 approximated their carrying amounts as shown in the accountants' report set out in Appendix IIA;

   (ii) The registered capital of the PRC Company had been fully contributed at the date reported on. Target HK and the existing shareholder had injected RMB7,000,000 (equivalent to approximately HK$7,954,545) and RMB2,000,000 (equivalent to approximately HK$2,272,727) respectively into the PRC Company as registered capital. The Vendor had applied part of the Consideration as shareholder's loan to Target BVI (then through Target HK) to inject into the PRC Company as registered capital, further details of which are set out in note 4 above.

   (iii) except for the mining rights as mentioned in note (iv) below, the fair value of the identifiable assets and liabilities of the PRC Company as at 31 December 2009 approximated their carrying amounts as shown in the accountants' report set out in Appendix IIB.

   (iv) there is an adjustment of fair value of the mining rights of the PRC Company of approximately HK$72,009,000. Accordingly, the amount of the mining rights of the PRC Company would have been increased by approximately HK$228,849,000, which represented the sum of (i) the total costs of the Acquisition (being the cash Consideration of approximately HK$167,045,000; and (ii) the 30% minority interests of the PRC Company of approximately HK$70,639,000, less the sum of (i) the shareholder's loan not applied for injection into registered capital of the PRC Company of aggregate amount of approximately HK$2,250,000; and (ii) the net fair value of the identifiable assets and liabilities of the Target Group recognized (assuming that additional registered capital of an aggregated amount of approximately HK$10,227,000 (equivalent to RMB9,000,000) had been fully contributed in the PRC Company).

   The amount of the 30% minority interests of the PRC Company of approximately HK$70,639,000 had been calculated at the 30% interest in the net fair value of the identifiable assets and liabilities of the PRC Company acquired (after taking into account of the adjustment of fair value of the PRC Company's mining rights of approximately HK$228,849,000 and assuming that additional registered capital of an aggregated amount of approximately HK$10,227,000 (equivalent to RMB9,000,000) had been fully contributed).

   Since the actual fair values of the assets, liabilities and contingent liabilities of the Target Group upon completion of the proposed Acquisition would be different from their estimated fair values used in the preparation of the Pro Forma Financial Information, the actual financial position arising from the proposed Acquisition might be materially different from the financial position as shown in this Appendix.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

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

31 May 2010

The Board of Directors
Sino Prosper State Gold Resources Holdings Limited
Unit 1702-04, 17/F., Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

We report on the unaudited pro forma consolidated statement of financial position (the "Pro Forma Financial Information") of Sino Prosper State Gold Resources Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group"), and Favour South Limited ("Target BVI") and its subsidiaries (hereinafter collectively referred to as the "Enlarged Group"), as set out in Section A entitled "Unaudited Pro Forma Financial Information of the Enlarged Group" in Appendix III to the Company's circular dated 31 May 2010 (the "Circular"). The Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed Acquisition (as defined in the Circular) might have affected the financial information presented. The basis of preparation of the Pro Forma Financial Information is set out in Section A of Appendix III to the Circular.

Respective responsibilities of the directors of the Company and the reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 30 September 2009 or any future date.

Opinion

In our opinion:

a. the Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b. such basis is consistent with the accounting policies of the Group; and

c. the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

Technical Review of Dongduimiangou Gold Project in Aohanqi of Inner Mongolia of Autonomous Region, P.R. China

For

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March 2010

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Peer Reviewer: Dr Anson Xu

EXECUTIVE SUMMARY

Sino Prosper Mineral Products Limited ("Sino Prosper" or "the Company") commissioned SRK Consulting China Limited ("SRK") to review the Dongduimiangou gold mine ("Dongduimiangou Gold Project"), which is located in Aohanqi of Inner Mongolia Autonomous Region, the People's Republic of China ("PRC"). SRK was required to provide an Independent Expert Report ("Report") including reviews on the geology and resources, mining technology, processing and metallurgy and as well as environmental issues. The Dongduimiangou Project possesses one operating mine (mining licence No.: C1500002009054110029537 with a valid period from May 31 2009 to May 31 2012) and one processing plant and other supporting facilities. It is wholly owned by Aohanqi Xinruien Mining Co Limited ("Aohanqi Xinruien"). The Report is intended to enable potential equity investors and possible future shareholders to review the Company's operations.

SUMMARY OF PRINCIPAL OBJECTIVES

The principal objective of the Report is to provide the Sino Prosper, a listed company in the Stock Exchange of Hong Kong Limited ("HKEx") and the HKEx with an Independent Expert Report ("Report") suitable for inclusion in the circular in relation to a proposed acquisition of the Dongduimaingou gold mine.

OUTLINE OF WORK PROGRAM

The work program involved two phases:

Phase 1: to review of information provided, then conduct a site visit to the Dongduimiangou gold mine and Aohanqi Xinruien's office, as well as make discussions with Aohanqi Xinruien personnel, collections of relevant data and documents, and site observation in the Dongduimaingou Project site located in Aohanqi of Inner Mongolia Autonomous Region.

Phase 2: to analyse the provided data, then prepare a draft report and provide it to the Company for comments. To review additional data and finalise this Report.

RESULTS

Overall

Dongduimiangou Gold Project consists of one mining license with an operating mine and ore processing plant, which are located approximately 50 kilometers (km) southeast (SE) of Aohanqi, or 170km east-southeast (ESE) of Chifeng City, Inner Mongolia Autonomous Region, P.R. China. The Dongduimiangou mining license covers an area of 2.0732 square kilometres (km^2). Currently, the Dongduimiangou operating mine has a mining capacity of 30,000 tonnes ore per year (tpa) and the ore processing plant has a processing capacity of 30,000tpa as well. The Company has planned to expand the mining and processing capacity to 300,000tpa by the end of 2010.

Regionally, the Dongduimiangou gold deposit is situated in Nuluerhu uplift belt of North China Platform. The Nuluerhu uplift belt is one of gold and polymetallic metallogenic zones in China. Along the both sides of the belt, there distributed two symmetric subsidiary mineralization belts, namely Jinchanggouliang-Beizifu and Shajiagou-Sijiazi. Both belts have a number of gold and polymetallic deposits and gold mineralization discoveries. Locally, the Dongduimaingou gold deposit is an independent property in Jinchanggouliang mine area, where has been extensively explored previously by a number of Geological Brigade of Inner Mongolia Bureau of Geology and Mineral Resources and other geological exploration companies.

In the Dongduimiangou gold mining licence area, 26 mineralized bodies were delineated by Inner Mongolia Tianxin Geological Exploration Ltd ("Tianxin") and China Non-ferrous Metal Geological Survey Co. Ltd ("CNMGS"). CNMGS has estimated and reported the mineral resources at 337,838t of 122b category at an average grade of 6.49g/t Au; 789,517t of 333 category at an average grade of 10.11g/t Au; and 761,143t of 334 category with an average grade of 9.71g/t Au, respectively. The Chinese resource categories are different from JORC. In general, the 122b category may refer to JORC's Indicated resource, and 333 to Inferred, but 334 has no JORC equivalent, which is basically a prediction.

Dongduimiangou gold mine is an underground, accessed by adits and shafts. Generally, the shorthole shrinkage stoping method will be adopted. The mining method will lead to 10% mining loss and 10% dilution.

By using the cyanidation leaching technology and the flotation technology, the gold leaching recovery rate and the flotation reclaiming recovery rate are over 96% and 91%, respectively. Both techniques designed in the Dongduimiangou concentrator are of industry standards.

The designed workforce numbers at Dongduimiangou are 634. This figure includes the following employees: 61 in Company headquarters administration, 448 in the mining department, 86 in the ore processing plant, 12 in the safety department, and other in the repairing and maintenance workshop and sale department.

The strengths of Aohanqi Xinruien will include high self-sufficiency from established vertical integration based on mining and developing mineral deposit, to on-site processing allowing economical operations with production of good quality concentrates.

The Company will complete a greening program at the mine and plant with improvements in dust control, waste water and sewage treatment once all in place.

Geology and Mineralogy

Dongduimiangou is one of the gold mines in Jinchanggouliang concession. Tectonically the mine area is seated in Nuluerhu uplift zones and the basement was stable in earlier periods until in Yanshanian Stage the tectonic activities happed more frequent. The structural basin, dome, and complicate faults from Mesozoic are presented as main features of the current tectonic framework in the mine area. The stratigraphy in the deposit area is represented by Xiaotazigou Formation of Jianping Group ($Arjnx^1$) of Archaean, Manketouebo Formation of upper Jurassic from Mesozoic, and a wide distribution of the Quaternary.

Magmatic activities occurred intensively and frequently during Yanshanian Stage (in or after Mesozoic), consequently the volcanic and intrusive marks could be widely observed in the area. The Yanshanian magmatic intrusions have the closest relationship with regional gold mineralisation. Regional metamorphism impacted the rocks of Xiaotazigou Formation and there were alteration occurred on the host works. The Alteration assemblage includes chloritisation, pyritization, silicification and carbonatation.

A total of 26 mineralized bodies were discovered in Dongduimiangou mine through the latest exploration, namely Nos. 1 to 26. Of which the orebody No. 1 is the major orebody of the deposit. It is located in the central part of the license area. This orebody appears as vein-like, strikes northwesterly (328°), and dips to southwest with dipping angles of 68° to 78°. It is about 1,450m long, 1.01m wide on average, and 249m down-dip with an average grade of 6.02g/t.

The characters of other 25 mineralized bodies together with the orebody No. 1 are summarized in the following table.

Orebody	Length (m)	Average Thickness	Occurrence (Dip/Dip Angle)	Average Grade (g/t)
No.1	1,450	1.01	230°∠73°	6.02
No.2	879	0.70	20°∠80°	10.40
No.3	194	0.54	not defined	14.70
No.4	200	0.78	not defined	10.45
No.5	330	0.70	30°∠70°	9.11
No.6	253	0.70	35°∠70°	9.58
No.7	85	0.50	170°∠73°	7.23
No.8	82	0.50	225°∠70°	8.92
No.9	430	0.87	205°∠68°	12.60
No.10	100	0.60	125°∠70°	4.70
No.11	250	1.10	20°∠70°	2.46
No.12	660	1.26	20°∠70°	3.08
No.13	60	0.47	45°∠69°	22.48
No.14	60	0.50	45°∠69°	20.50
No.15	170	0.90	225°∠70°	6.88
No.16	90	0.50	225°∠70°	1.89
No.17	110	0.69	225°∠69°	1.95
No.18	80	0.40	230°∠67°	11.50
No.19	85	0.80	230°∠65°	2.40
No.20	130	1.00	230°∠70°	5.98
No.21	250	0.65	225°∠72°	4.54
No.22	230	0.73	210°∠76°	5.17
No.23	45	0.50	250°∠69°	6.18
No.24	45	0.50	248°∠70°	3.14
No.25	300	0.70	265°∠74°	4.73
No.26	60	0.70	80°∠75°	8.42

Mineralogy and Ore Character

The ore types at Dongduimiangou gold mine are classified as oxidized ore and primary ore based on the proportion of iron oxides. The ore minerals are mainly native gold, pyrite, chalcopyrite, galena, sphalerite, and tetrahedrite with minor amount of chalcocite, freibergite, bornite, arsenopyrite, magnetite, hematite, covelline, malachite and limonite minerals. Gangue minerals are represented by quartz, sericite, chlorite, calcite, potash feldspar, plagioclase, hornblende and kaolin.

The ore of Dongduimiangou mine are characterized by massive, disseminated, veinlet, banded, and brecciform structures, and euhedral or subhedral granular and replacement remnant textures.

The principal benefit element is gold (Au) with an average grade at 9.71g/t in Dongduimiangou mine, and another associated benefit compositions are silver (Ag) with an average grade at 16.88g/t, copper (Cu), lead (Pb), Zinc (Zn) and antimony (Sb). However, except silver, the content of the other associated minerals are generally too low to be utilized. The harmful element is arsenic (As) with content about 0.021%~0.025%, which is low as well.

Resource/Reserve Estimation

SRK inspected a number of mineralized body's exposures underground, and reviewed the sampling and assaying methodologies, and quality assurance and quality control procedures used by the Tainxin and CNMGS, showing all samples were assayed following standard analytical procedures. SRK reviewed methods used by the Company to estimate resources and is satisfied that Tainxin and CNMGS, who are qualified and approved Chinese independent geological consultants, have used methods and procedures complying with Chinese National standards for resource estimation.

SRK completed a high-level review of resources and reserves as estimated by Tainxin in April 2008 CNMGS in December 2009 for the Dongduimiangou gold deposit. SRK notes that the Geological Survey Report with resource and reserve estimation by Tianxin was recognised by Inner Mongolia Bureau of Land and Resources. The Resource Verification Report by CNMGS has been sent to the relevant Chinese authority for recognisation. SRK held discussions with representatives of the Company. Resources estimated by CNMGS are mainly based on the following technical parameters for the Dongduimiangou gold deposit based on the geological and mineralization characters of the deposit and the Decree of China Geological Survey on Rock Gold Deposit (DZ/T0205-2002):

- Cut off grade: 1g/t;
- Minimum industrial grade: 2.5g/t;
- Average industrial grade of deposit: 4g/t;
- Minimum mineable thickness: 0.5m;
- Maximum band thickness: 2m;

CNMGS has estimated and reported the gold ore resources at the mining licence area at 337,838t of 122b category at an average grade of 6.49g/t Au (containing metal gold resource of 2.193t); 789,517t of 333 category at an average grade of 10.11g/t Au (containing metal gold resource of 7.982t); and 761,143t of 334 category with an average grade of 9.71g/t Au (containing metal gold resource of 7.393t), respectively, as shown in the following summary table.

Resource Category	Ore Tonnage (t)	Gold (kg)	Grade (g/t)
122b	337838	2193	6.49
333	789517	7982	10.11
334	761143	7393	9.71

The resource in the above table may comply with Chinese standard; **however, the Chinese system is different from the criteria used in defining a resource under the Australian Joint Ore Reserves Committee (JORC) code**. The comparison of the Chinese and JORC systems is provided in Appendix II. In general, Category 122b can refer to Indicated Resource, and Category 333 is similar to Inferred Resource. Category 334 may not be classified as a JORC resource, and it is a prediction depending on the types of the geological setting and mineralization of the deposits, and the understandings to the properties. SRK notes that the resources can be considered as the potential of the deposits, and should be used with caution.

The resources and reserves estimates are one of the input parameters used to prepare this Report. SRK is satisfied that the resources have been estimated in adherence to requirements prescribed by the governing state committee for resources at particular stages of project development. It is SRK's opinion that current individual estimates at 122b and 333 categories are reliable, although they may not in full compliance with the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC code) standard.

In China, 122b category resources are deemed as basic reserves. In JORC code, only Measured category and Indicated category resources can be converted into ore reserves after consideration of some technical, economic and other factors. Although the Dongduimiangou gold mine is an underground mine and the majority of 122b category resources can be economically mined out, SRK cannot convert resources into reserves given that they may not in full compliance with the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC code) standard. For a reserve conversion, mining loss and dilution should be considered.

Exploration Potential

SRK noticed there are abundant resources of Category 333 and Category 334 estimated by CNMGS in the mining license area, which would suggest more exploration work including in-fill drilling should be carried out in the all mining licensed areas to verify them and upgrade the resources category. During SRK site visit, the assay results of core samples from two more drill hole show 22.6g/t Au (0.88m in thickness) and 12.8g/t Au (6.0m in thickness), which indicate very good potential.

SRK recommends that the QA/QC protocol should be well organized by the Company in future exploration, which involves drilling, sampling, sample preparation, assaying, internal and external check, insertion of control samples i.e. blanks, standards and duplicates. Also it's better for the Company to keep the sample rejects and pulps for further check.

Mining Assessment

Dongduimiangou gold mine owned by Aohanqi Xinruien has a relatively good mining condition and enjoys an easy-flowing traffic condition. Inner Mongolia Yuanbo Engineering Design & Consulting Co., Ltd completed the Resource Development Plan ("Plan"). In the plan the daily production capacity is designed to mine and process ore of 100t/d (30000tpa). The service life of the mine will last for 11.3 years, relying on the 122b category resource only. The mine will be developed by shaft and adit, and the shallow shrinkage method is used as the mining method (the thin ore block is mined by using the cut and fill method). The mining loss rate and the mining dilution rate are both 10% respectively. In SRK's opinion, considering the potential of resource, the 100t/d production scale seems too small.

Aohanqi Xinruien stated that it proposes to strengthen the geologic exploration in the future and it will, in 2010, begin the reconstruction of the mine including mine development and one new concentrator with processing capacity of 300,000tpa (i.e., 300 working days a year with a daily capacity of 1,000 tonnes) following the Feasibility Study conducted by Changchun Gold Design Institute in December 2009. The total investment will be RMB136 million. It is of SRK's opinion that further exploration programs should be taken to upgrade the resource category and increase more potential resources.

Ore Processing

The ore processing tests show that, by using the cyanidation leaching technology or the flotation technology, the gold leaching recovery rate and the flotation reclaiming recovery rate are over 96% and 91%, respectively. But the representativeness of such two groups of samples is inadequate because the sample group used in the cyanidation leaching test and the sample group used in the floatation test differ between each other in nature. SRK suggests that in order to determine the leaching effect of the different ore-bodies, all kinds of ore samples should go through the all slime cyanidation-leaching test so as to provide the technical base for the selection of production technology before the design of the mill to be built.

According to the productive capacity specified in "Plan for Exploitation of Mineral Resources and its Utilization", the processing capacity is 100t/d by using cyanidation leaching technology, while the capacity is 1000t/d if adopting the flotation technology according to the production capacity specified in "Feasibility Study". There is a big gap of capacities between the two methods. SRK recommends that the first processing capacity is too small. SRK suggests the application of CIP technology to the industrial production. The rational production scale must be determined on the basis of the reliable resource/reserves, the mine's reasonable service life and the reasonable mining capacity.

Safety

The *Approval for Safety Facility Check and Acceptance of Aohanqi Xinruien Dongduimiangou Gold Mine* was issued by the Chinese National Safety Production and Quality Adinistration Bureau on 17 May 2008. Inner Mongolia Safety Production Administration Bureau on 28 December 2008. This safety approval covers the mine, concentrator and tailings storage facility ("TSF").

The Inner Mongolia Safety Production Administration Bureau issued one Safety Production Permit (Permit No. 279) for the Dongduimiangou Gold Project on 28 December 2008.

Capital and Operating Costs

Total investment on the Dongduimiangou gold mine construction designed in the Business Plan and Feasibility Study by Changchun Gold Design Institute is RMB136 million Yuan, which includes the mine development (RMB3.06 million Yuan), ore processing plant (RMB3.87 million Yuan), tailing storage facility (RMB760,000 Yuan), metallurgical plant (RMB1.757 million Yuan), and supporting facilities and others (RMB4.512 million Yuan). In SRK's opinion, the proposed capital investments are sufficient and likely to achieve Aohanqi Xinruien's stated target of production capacity of 300,000tpa.

According to the Feasibility Study conducted by Changchun Gold Design Institute, the operating costs analysis showing the costs for mining as RMB81 Yuan per tonne ore and processing RMB77 Yuan per tonne ore which makes total operating costs of RMB158 per tonne ore mined and treated. Consumption of reagents and other materials in the costs are based on prices obtained by suppliers in China. Information regarding the salary scales was used to calculate labour costs. Power consumption and hence costs were based on the local standards of charges.

Environmental

The Mining Licence for the Dongduimiangou Project Gold Mine (Licence No. C1500002009054110029537) was granted to Xinrui Mining on 31 May 20009 by the Aohan County Bureau of Land and Resource (expiry 31 May 2012). The approved mining method is for underground, with an approved production rate of 30,000 tonnes of ore mined per year.

An Environmental Impact Assessment (EIA) entitled "45,000 tpa Gold Ore Project for Dongduimiangou Gold Mine" was completed 2007 for Xinrui Mining was provided for review. The EIA was approved (No.2008-3) on the 17 January 2008 by the Chifeng City Environmental Protection Bureau (EPB). SRK notes that the EIA has been conducted for a higher production rate than the mining license's approved rate.

The Dongduimiangou Project's Soil and Water Conservation Plan (SWCP) was completed by the Aohan County Water and Soil Conservation Station in October 2007 for Xinrui Mining. The SWCP was approved by the Aohan County Water Management Bureau (No.2007-96) on 10 October 2007. SRK was provided with copies of 6 Land Use Permits (LUP) for the Dongduimiangou Project facilities sites were provided for review. All LUPs were issued by the Aohan County Land and Resources Bureau in 2006 and 2007.

As Xinrui Mining is yet to begin construction/development work on the Dongduimiangou Project, Water Use Permits, Pollution Discharge Permits and Final Check Acceptances (on environmental protection facilities) are not yet required, but will be required as the project moves into operation.

In summary the most significant environmental risks for the development of the Dongduimiangou Project, currently identified as part of the project assessment, are:

- Surface water management and discharges (i.e. stormwater runoff).
- Groundwater management and discharges (i.e. mine dewatering and seepage from the Waste Rock Dump – WRD).
- Dust generation from WRDs, TSF, exposed ground and transport activities.
- Rehabilitation of the waste rock stockpiles and other disturbed areas.
- Storage and handling of hazardous materials.
- Waste generation and management (industrial and domestic wastes).
- No geochemical characterisation of industrial waste materials (waste rock).
- Potential contaminated sites.
- Adequate structured closure planning process.
- Adequate erosion control measures.

Of the above items, the most significant environmental risks for the Dongduimiangou Project are associated with potential surface, groundwater impacts and dust generation. In addition, storage and handling of hazardous materials/wastes, including fuels and the potential for generating contaminated sites and operational closure liabilities through management of waste rock, tailings, hydrocarbons and general waste also presents high environmental risks. In particular, the Dongduimiangou Project has no structured process in place for undertaking contaminated sites assessment and for broader closure planning. The lack of characterisation of process wastes and the potential for acid rock drainage and metal leaching may also be of concern.

The environmental risks associated with surface and ground water management, waste rock disposal, hazardous materials management and land rehabilitation can be generally managed if Chinese National environmental standards and regulatory requirements are met.

The environmental risks associated with the potential for generating contaminated sites and other site closure liabilities can be effectively managed through the adoption of relevant recognised international industry practices.

Social

The Dongduimiangou Project is located in Aohan Qi District of Chifeng Township, Inner Mongolia. The land use for the general surrounding area is predominately agricultural and animal husbandry along with other mining projects. Xinrui Mining has stated that the population of the surrounding area is a mix of Han Chinese, Mongolian and Hui local cultural minority groups. The Xinrui Mining reported to SRK that there are no significant cultural heritage sites, within or surrounding the Dongduimiangou Project site.

Results of the public participation analysis reported in the EIA, some of the interviewees know something about this project, 75.0% of the interviewees are supportive of the project, and nobody hold an objection attitude; 57.14% of the interviewees think that the construction of the project can push forward the local economic development, and 42.86% of them think the project will add to the local job opportunities.

In the survey of the local environment problems, 35.71% of the interviewees are very satisfied with the existing local environment, 21.43% of them think the local environment is just so so, 14.29% of the public express their satisfaction with the local environmental quality, and 28.57% of them express that they don't care about it; 7.14% of the interviewees think the main local environmental problem is noise pollution, and 10.71% of them think air pollution and water environment pollution are the environmental problems, some 46.43% of the public think the damage to the ecosystem is a problem; with regard to the impact of the construction of the project on the local environmental quality, the major concern of the public is the damage to the ecosystem, accounting for 53.57% of the total interviewees. The environmental problems of public concern basically reflect the environmental pollution characteristics of this project.

The main administrative body for the Dongduimiangou Project is the Aohan Qi County of the Chifeng City Township jurisdiction. Xinrui Mining reported, the relationship with the administering government was good and positive effects to the surrounding local communities will be mainly direct employment of local contractors and use of local suppliers/service providers where practical. No non-compliance notices, public complaints and or other notices of breach of environmental conditions for the Dongduimiangou Project have been sighted as part of this review.

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DISCLAIMER

The opinions expressed in this report have been based on information supplied to China Ltd ("SRK") by Sino Prosper Mineral Products Limited ("Sino Prosper" or "the Company") and Aohanqi Xinruien Mining Co Limited ("Aohanqi Xinruien"). The opinions in this Report are provided in response to a specific request from Sino Prosper. SRK has exercised all due care in reviewing the supplied information. While SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them.

Opinions presented in this Report apply to the site's conditions and features as they existed at the time of SRK's investigations, and those reasonably foreseeable. These opinions do not necessarily apply to conditions and features that may arise after the date of this Report, about which SRK have had no prior knowledge nor had the opportunity to evaluate.

LIST OF ABBREVIATIONS

%	Percent
^{0}	Degrees, either of temperature or angle of inclination
ASL	Above sea level
AusIMM	Australasian Institute of Mining and Metallurgy
CNMGS	China Non-ferrous Metals Resource Geological Survey, a China domestic organisation
Cu	The chemical symbol for copper
E	East
EP's	Exploration Permits
Fe	The chemical symbol of iron
g	gram
g/t	gram per tonne
HKEx	Stock Exchange of Hong Kong Limited
Indicated Mineral Resource	That part of a resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed
Inferred Mineral Resource	That part of a resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes which may be limited or of uncertain quality and reliability

IP (Induced Polarisation)	An exploration technique whereby an electrical current is pulsed through the ground and the response from the sub surface measured in order to identify minerals of interest. Strong IP responses may be a result of sulphide which may be associated with gold mineralisation
JORC Code	Joint Ore Reserves Committee Code
JORC Committee	Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
kg	kilogram, equivalent to 1,000 grams
km	kilometres, equivalent to 1,000 metres
km^2	square kilometres
kV	kilovolts – equivalent 1,000 volts
kW	Kilowatt, equivalent to 1,000 watt
Late Triassic	a time period of approximately 18 million years from 228 million to 210 million years ago
m	metre/s
m^2	square metre
m^3	cube metre
M	Million
Measured Mineral Resource	That part of a resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes
Micron	1/1,000 of a millimetre
Middle Triassic	A time period of approximately 14 million years from 242 million to 228 million years ago

MLR	Ministry of Land and Resources
mm	Millimetre/s
Mt	Million tonne (s)
Mtpa	Million tonnes per annum
MW	Megawatt, equivalent to 1,000,000 watt
N	North, also the chemical symbol for Nitrogen
NE	North East
NEE	North East East
NE-NNE	North East-North North East
NQ size core	47.6mm diameter, approximately 70% of the core taken
NW	North West
oz	troy ounce, equivalent to 31.1035 grams
pH	A measure of the acidity or alkalinity of a solution, numerically equal to 7 for neutral solutions, increasing with increasing alkalinity and decreasing with increasing acidity. The pH scale commonly in use ranges from 0 to 14
PPE	personal protective equipment
ppm	parts per million, equivalent to grams per tonne (g/t)
PQ size core	85mm diameter
PRC	People's Republic of China
Probable Ore Reserve	The economically mineable part of an indicated, and in some circumstances measured, resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and government factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified

Proved Ore Reserves	The economically mineable part of a measured resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and government factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Also referred to as recoverable proved reserve.
QA/QC	Quality Assurance/Quality Control
RC (Reverse Circulation)	A percussion-drilling technique in which the cuttings are recovered
RL	see mRL
S	South, also the chemical symbol for sulphur
SE	South East
t	Tonne
Te	tellurium
tpa	tonnes per annum
tpd	tonnes per day
Triassic	A time period, approximately 250 million to 210 million years ago
Valmin Code	Code for Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports

1 INTRODUCTION AND SCOPE OF REPORT

Sino Prosper Mineral Products Limited ("Sino Prosper" or "the Company") commissioned SRK Consulting China Limited ("SRK") to review the Dongduimiangou gold mine ("Dongduimiangou Gold Project"), which is located in Aohanqi of Inner Mongolia Autonomous Region, the People's Republic of China ("PRC"). SRK was required to provide an Independent Expert Report ("Report") including reviews on the geology and resources, mining technology, processing and metallurgy and as well as environmental issues on the project. The Dongduimaingou Gold Project including one operating mine (mining licence No.: C1500002009054110029537 with a valid period from May 31 2009 to May 31 2012) and one processing plant and other supporting facilities is wholly owned by Aohanqi Xinruien Mining Co Limited ("Aohanqi Xinruien").

Sino Prosper commissioned SRK to undertake an independent review of all the relevant technical aspects of the Dongduimiangou Gold Project. SRK was required to provide the Sino Prosper, a listed company in the Stock Exchange of Hong Kong Limited ("HKEx") and the HKEx with this Report suitable for inclusion in the circular in relation to a proposed acquisition of Dongduimiangou gold mine.

2 BACKGROUND AND BRIEF

2.1 Background of the Project

Sino Prosper commissioned SRK to review and report the Dongduimiangou gold operating mine in Aohanqi of Inner Mongolia Autonomous Region, P.R. China. The mining permit is currently owned by Aohanqi Xinruien. Copy of the original mining license is shown in Appendix I.

2.2 Scope or Work

The scope of work included SRK travelling to Chifeng and visiting the Dongduimiangou gold property, which includes the review of the sampling and assaying methods being adopted, the verification of the original borehole location and logs, and the evaluation of resource category and estimate of the silver-lead-zinc mine, and the review of detailed mining design, processing and metallurgical technology and environmental aspects. SRK also needs to preparae an independent expert report ("Report") summarizing the findings of the Dongduimiangou Gold Project for the transaction in the HKEx.

3 PROGRAM OBJECTIVES AND WORK PROGRAM

3.1 Program Objectives

The objectives of the program were to review the data available, participate in a site visit and provide the Company with both verbal feedback and a written report.

3.2 Purpose of the Report

The purpose of the Report is to provide potential equity investors, potential shareholders and the HKEx with Report which:

- provides potential investors with an unbiased views on the risks and opportunities associated with the project, and
- is suitable to be included in the circular that the Company plans to submit to HKEx in relation to a proposed acquisition of Dongduimiangou gold property.

3.3 Reporting Standard

This Report has been prepared to the standard of and is considered by SRK to be a Technical Assessment Report under the guidelines of the Valmin Code. The Valmin Code is the code adopted by the Australasian Institute of Mining and Metallurgy and incorporates the Joint Ore Reserves Committee ("JORC") Code for the reporting of Mineral Resources and Ore Reserves. The standard is binding upon all and is binding upon all Australasian Institute of Mining and Metallurgy ("AusIMM") members.

This Report is not a valuation report and does not express an opinion as to the value of mineral asset. SRK does not express an opinion regarding the specific value of asset and tenement involved.

3.4 Limitations Statement

SRK is not professionally qualified to opine upon and/or confirm that Aohanqi Xinruien has 100% control of the underlying tenement and/or has any unresolved legal matters relating to any transfer of ownership or associated fees and royalties. SRK has therefore assumed that no legal impediments regarding the relevant tenements exist and that Aohanqi Xinruien has legal rights to all underlying tenements as purported. Assessing the legal tenure and right to prospects of Aohanqi Xinruien is the responsibility of legal due diligence conducted by entities other than SRK.

3.5 Work Program

The work program is consisted of a review of data provided by Sino Prosper and Aohanqi Xinruien, a site visit to the Aohanqi Xinruien's office and site of the mining tenement from January 25 to 28, 2010 in Chifeng City, Inner Mongolia Autonomous Region to inspect the operating mine including the geology and resource, the trial production site as well as the processing plant, discuss with Aohanqi Xinruien's personnel, and collect relevant documents. SRK also need to prepare this Report, which was provided to Sino Prosper as a draft for review of factual content. SRK will finalise the report after feedbacks and comments have been considered.

3.6 Project Team

The SRK project team, title and responsibility within this Report are shown in Table 3-1 below.

Table 3-1: SRK Project Team

Consultant	**Title and Responsibility**
Dr Yiefei Jia	Principal Consultant/geology and resource estimates, project manager, report compilation
Pengfei Xiao	Senior Geologist/assisting geological data collection
Lanliang Niu	Senior Processing & Metallurgical Engineer, processing review
Quiji Huang	Senior Mining Engineer, mining review
Andrew Lewis	Senior Environmental Engineer, environmental & permit review
Charlie Liu	Technical Interpreter for Andrew and project coordinator
Dr Anson Xu	Principal Consultant/peer review and quality control

Dr Yiefei Jia, ***PhD, MAusIMM***, is a principal consultant (geology) with a specialty of exploration of mineral deposits. He has more than 18 years experience in the field of exploration, development, and resources estimate of precious (gold, sliver, and PGE) and base metal (lead, zinc, copper, vanadium, titanium, and iron as well as other metal ore deposits in different geological settings in China, Australia, and North America. He also has essential skills including exploration project management and design; petrological and geochemical analysis; lithological and geotechnical logging; and scientific research. He has recently completed several technical review projects including HKEx technical reports. ***Dr Jia is the project manager of this project.***

Pengfei Xiao, MSc, (Geophysics) of Chinese Academy of Sciences, is a Geologist of SRK. In the past few years, Pengfei has joined a number of training on Petrology, Tectonics, and Geophysical exploration; also he has taken part in geological mapping. As a main participant, he has worked on Geophysical exploration and Geological survey in some metal minerals and coal projects, including a key project sponsored by National Nature Science Foundation of China. Mr Xiao will assist Dr Jia in collecting data and reviewing geology and resource. Pengfei will be assisting ***Dr Jia in reviewing the geology and resource.***

Qiuji Huang, ***B.Eng***., Senior Mining Engineer with SRK Consulting China, graduated from Central South University of Mining and Metallurgy in 1982. He used be mining directors for a few gold mines in the southwest region of China. After that he joined the Gold Administration Bureau of Guangxi province in charge of the supervision and direction of mine construction mine planing and mining technology developing. Mr Huang is an expert on mine construction, mining technology, mine production and mine planning. ***He will be responsible for mining review.***

Lanliang Niu, BEng, Senior Mineral Processing Engineer, graduated from Beijing University of Science and Technology in 1987. After graduation, he had been working in Henan Rock and Ore Testing Centre and the Zhengzhou Mineral Exploitation Researching Institute of China Academy of Geological Sciences. He has more than 20 years' experience in metallurgical testing and other mine technical service – 10 years in metallurgical testing research and another 10 years in the mine operational practice. He had been in the metallurgical study of precious metal minerals including: Pt, Au, Ag; non-ferrous metal minerals including: Pb, Zn, Cu, Mo; ferrous metals minerals including: Fe, Mn, Ti, and other non-metal minerals like Kyanite, Fluorite, Barite, Rutile, and Graphite. He is an expert in the precious metal wet-type metallurgy and sulfide ore flotation. He has received a second and a third prizes (KJ-91-49-5, KJ-94-3-6-3) from the National Geology and Mine Ministry for his outstanding achievements in this area. After joining SRK, he is responsible for the ore processing and metallurgical scope of work and involved in many key projects. ***He will review the processing aspects of the project for this report.***

Andrew Lewis, BSc (Environmental Science), ***MAusIMM*** is a Senior Environmental Engineer with SRK Consulting China. He has worked extensively in China and Asia for a decade as well as projects in Australia and Africa. He has worked on a wide variety of projects ranging from technology transfer to environmental health and safety and community consultation programmes. His current focus is on environmental compliance, permitting, auditing and impact assessments on mining, mineral processing, refining, smelting and infrastructure projects in China and Mongolia. He also works on environmental management systems, pollution prevention/ mitigation, remediation of contaminated sites and site closure planning. He will be responsible for environmental review. ***Mr Lewis is responsible for the review of environmental issues.***

Dr Anson Xu, ***PhD, MAusIMM,*** is a principal consultant with a specialty in exploration of mineral deposits. He has more than 20 years experience in exploration and development of various types of mineral deposits including copper-nickel sulphide deposits related to ultrabasic rocks, tungsten and tin deposits, diamond deposits, and in particular, various types of gold deposits, vein-type, fracturebreccia zone type, alteration type, Carlin type. He was responsible for resource estimations of several diamond deposits, and review of resource estimations of several gold deposits. He has recently completed several due diligence jobs for clients in China, including gold, silver, lead-zinc, iron, bauxite, and copper projects, and several technical review projects, as well as HKEx technical reports. ***Dr Xu provided peer review to ensure the quality control of the report.***

3.7 Statement of SRK Independence

Neither SRK nor any of the authors of this Report has any material, present or contingent interest in the outcome of this Report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK's fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. Payment of that professional fee is not contingent upon the outcome of the Report.

None of SRK or any authors of this report have any direct or indirect interest in any assets which had been acquired, or disposed of by, or leased to any member of the Company or any of the Company or any of its subsidiaries within the two years immediately proceeding the issue of this transaction.

None of SRK or any authors of this report has any shareholding, directly or indirectly in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

3.8 Warranties

Sino Prosper and Aohanqi Xinruien have represented to SRK that full disclosure has been made of all material information and that, to the best of its knowledge and understanding, such information is complete, accurate and true. SRK has no reason to doubt this representation.

3.9 Consent

SRK consents to this Report being included in full in the application for the transaction of Dongduimiangou gold mine on the HKEx, in the form and context in which the technical assessment is provided, and not for any other purpose.

SRK provides this consent on the basis that the technical reviews expressed in the summary and in the individual sections of this Report are considered with, and not independently of, the information set out in the complete Report and the cover letter.

3.10 SRK Experience

SRK Consulting is an independent, international consulting group with extensive experience in preparing independent technical reports for various stock exchanges around the world (see www.srk.com for a review). SRK is a one-stop consultancy offering specialist services to mining and exploration companies for the entire life cycle of a mining project, from exploration through to mine closure. Among SRK's more than 1,500 clients are most of the world's major and mediumsized metal and industrial mineral mining houses, exploration companies, banks, petroleum exploration companies, agribusiness companies, construction firms and government departments.

Formed in Johannesburg, South Africa, in 1974 SRK now employs more than 900 professionals internationally in 35 permanent offices on six continents. A broad range of internationally recognized associate consultants complements the core staff.

SRK Consulting employs leading specialists in each field of science and engineering. Its seamless integration of services, and global base, has made the company a world's leading practice in due diligence, feasibility studies and confidential internal reviews.

The SRK Group’s independence is ensured by the fact that it holds no equity in any project and that its ownership rests solely with its staff. This permits the SRK Group to provide its clients with conflict-free and objective recommendations on crucial judgment issues.

SRK was established in early 2005, and is mainly working on Chinese mining projects independently or together with SRK’s other offices, mainly SRK Australasia (see www.srk.cn and www.srk.com.au for a review). We have prepared dozens of independent technical reports on mining projects for various companies who acquired Chinese projects or went public listings on overseas stock exchanges with a summary list as showing in Table 3-2.

Table 3-2: Recent Reports by SRK for Chinese Companies

Company	Year	Nature of Transaction
Yanzhou Coal Limited (company listed on the Stock Exchange of Hong Kong Limited)	2000	Sale of Jining III coal mine by parent company to the listed operating company
Chalco (Aluminium Corporation of China)	2001	Listing on the Stock Exchange of Hong Kong Limited and New York Stock Exchange
Fujian Zijin Gold Mining Company	2004	Listing on the Stock Exchange of Hong Kong Limited
Lingbao Gold Limited	2005	Listing on the Stock Exchange of Hong Kong Limited
Yue Da Holdings Limited (company listed on the Stock Exchange of Hong Kong Limited)	2006	Proposed acquisition of shareholding in mining projects in P.R. China
China Coal Energy Company Limited (China Coal)	2006	Listing on the Stock Exchange of Hong Kong Limited
Sino Gold Mining Limited	2007	Dual listing on the Stock Exchange of Hong Kong Limited
Xinjiang Xinxin Mining Industry Company Limited	2007	Listing on the Stock Exchange of Hong Kong Limited
Espco Technology Holdings Limited	2008	An acquisition of shareholding in Tongguan Taizhou Gold-Lead projects in P.R. China

Company	Year	Nature of Transaction
Kiu Hung International Holdings Limited	2008	An acquisition of shareholding in coal projects in inner Mongolia, PRC
China Shenzhou Mining and Resources Inc	2008	Listing (SHZ) on the American Stock Exchange
Green Global Resource Ltd	2009	An acquisition of shareholding in iron project in Mongolia
Ming Fung Jewellery Group Holdings Ltd	2009	An acquisition of shareholding in gold projects in Anhui and Hebei, P.R. China

3.11 Forward-looking Statements

Estimates of mineral resources are inherently forward looking statements. Being projections of future performance, they will differ from actual performance. The errors in such projections result from inherent uncertainties in interpretation of geologic data, variations in the execution of mining and processing plans, the ability to meet construction and production schedules, availability of necessary equipment and supplies, fluctuating prices and changes in regulations.

Possible sources of error in the forward looking statements are addressed in more detail in the appropriate sections of this Report.

4 PROJECT BACKGROUND

The Dongduimiangou gold property is currently operated by Aohanqi Xinruien located in Aohanqi, Inner Mongolia. Aohanqi Xinruien was granted with the exploration license for the property in 2006 and on May 31, 2009, Aohanqi Xinruien obtained the mining license for Dongduimiangou property with an area of 2.0732km^2.

4.1 Mining License

The mining license for Xinruien was issued by Bureau of Land and Resources, Inner Mongolia Autonomous Region ("BLR of Inner Mongolia"). Details for the permit are shown in Table 4-1.

Table 4-1: Mining License for Dongduimiangou Gold Project

Tenement	License ID	Area (km^2)	Mineral	Type	Production	Issue Date	Expiry Date
Dongduimiangou Gold Deposit	C15000020090 54110029537	2.0732	Gold	Underground	30,000 tpa	May 31, 2009	May 31, 2012

There are 11 vertices to delineate the mining permit area, and detailed vertices coordinates of the mining license are shown in Table 4-2.

Table 4-2: Coordinates of Vertices for the Mining License*

No.	X	Y	No.	X	Y
1	4647558.36	40524469.22	2	4647563.26	40525850.92
3	4648488.86	40525847.52	4	4648491.46	40526538.22
5	4647565.86	40526541.72	6	4647564.56	40526196.32
7	4647101.76	40526198.02	8	4647100.46	40525852.52
9	4646699.36	40525845.02	10	4646637.36	40525762.12
11	4646632.76	40524472.42			

**Note:* Xi'an 1980 Coordinate System

It should be noticed that according to the mining license, the allowable mining elevation limit is from 770m above seal level ("ASL") to 534m ASL.

4.2 Exploration History

Dongduimiangou gold mine is an independent property in Jinchanggouliang mine area. The Jinchanggouliang mine area is one of famous gold mines in China. Mining activities in this area could trace to later 19th Century, when the industry was organized by government in Qing dynasty.

Since 1950s, a number of comprehensive exploration works had been conducted in the region. In 1960s, former No. 204 Geological Brigade of Inner Mongolia Bureau of Geology completed the geological mapping with scale of 1:10,000 at an area of 25km^2 in Jinchanggouliang area.

A regional geological investigation at scale of 1:50,000 was conducted by No. 3 Geological Brigade of Inner Mongolia Bureau of Geology and Mineral Resources from 1988 to 1990. As a result, the geological report and related 1:50,000-scale geological map for Jinchanggouliang-Beizifu area were submitted in 1991. However, there were no historical resource estimates at that time.

From August 2006 to May 2008, a general exploration work in Dongduimiangou mine was carried out by Inner Mongolia Tianxin Geological Prospecting and Development Company Limited ("Tianxin"), and a geological report of "*General Exploration Report on Dongduimiangou Gold Mine, Aohan Qi, Inner Mongolia Autonomous Region*" was submitted on the date of May 31, 2008. This report was reviewed and accepted by Inner Mongolia Bureau of Land and Resources ("Inner Mongolia BLR") with a proof document numbered [2008] 151.

An additional exploration work has been conducted by Tianxin since June 2008 in order to explore the orebody Nos. 2, 3, and 4, under the commission by Aohanqi Xinruien. Consequently a report of "*Complementary General Exploration Report on Dongduimiangou Gold Mine, Aohan Qi, Inner Mongolia Autonomous Region*" was submitted and the report was also accepted by Inner Mongolia BLR on November 30, 2008.

From late September 2009 to January 2010, China Non-ferrous Metals Geological Survey ("CNMGS") was commissioned by Aohanqi Xinruien conducting a site investigation and preparing an update of the resources estimate. The report prepared by CNMGS was provided to SRK in late January at the time of SRK's site visit. It is assumed as the latest update for the exploration and resources in Dongduimiangou project.

5 LOCATION, ACCESSIBILITY, CLIMATE AND PHYSIOGRAPHY

5.1 Location and Access

Dongduimiangou gold project is located in the adiministrative area of Chifeng, Inner Mongolia, northeast of China (see Figure 5-1), which is 3km southeast of the downtown of Jinchanggouliang town, and about 50km southeast of the county town of Aohan Qi (Banner). The mine is also seated at the boundary between Inner Mongolia and Liaoning provinces. Chaoyang City of Liaoning Province is about 45km to the south.

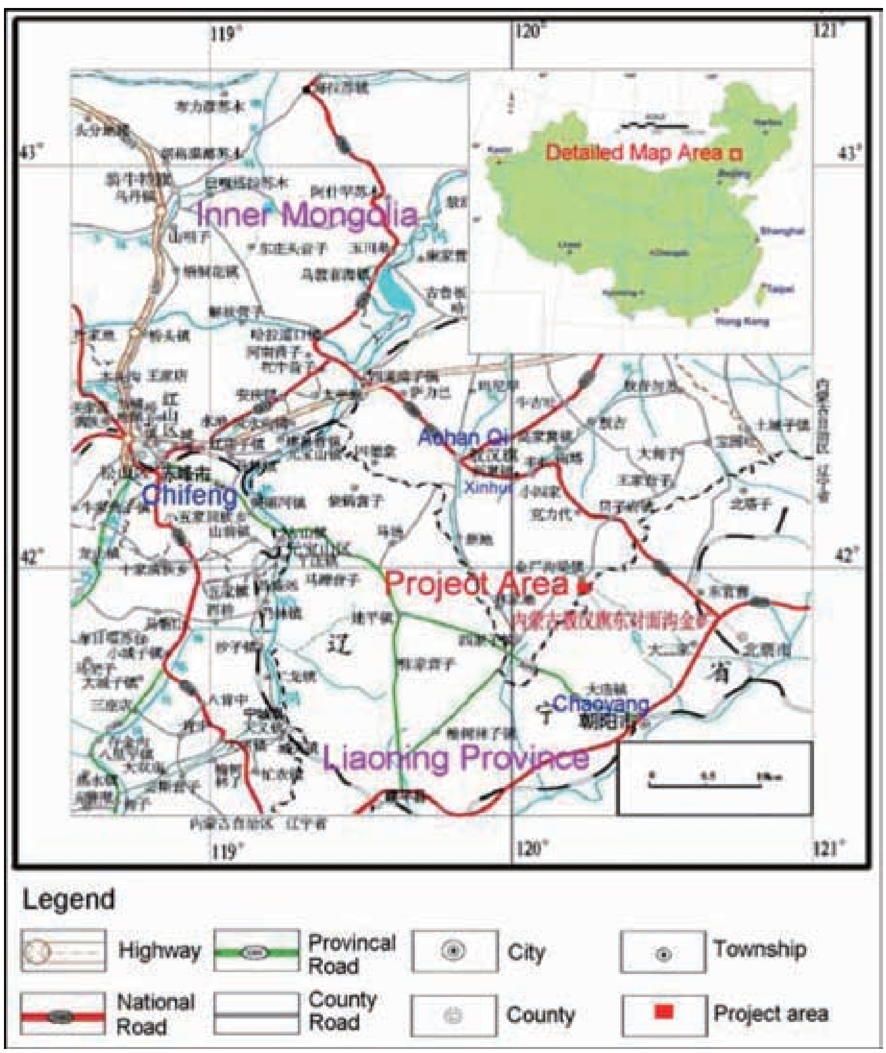

Figure 5-1: Location and Access of Dongduimiangou Project

The coordinates of the project area are at a range as follows, east longitude from 120º17’45” to 120º19’15”, north latitude from 41º57’15” to 41º58’15”.

Access to the mine area is excellent. Chifeng City is located at the west of the area and drive from the City to the mine will cost about 2 hours, via national highway and well paved provincial and county level highways. There is an airport in Chifeng with daily flights between Chifeng and some domestic cities available. Railway is accessible in Chifeng and Chaoyang as well.

5.2 Climate and Physiography

The mine area is located in Nuluerhu mountainous area. The topography is characterised by low mountains or hills, with an elevation ranging from 550m to 875m ASL. Climate in the region belongs to mid-temperate continental monsoon type.

Generally the weather in the mine site is cold with a yearly average temperature at the range from 5.3 degree Celsius (°C) to 7.2°C. The lowest temperature in winter could be minus 30°C (-30°C), and the highest temperature in summer can reach 37°C. The extremely cold and hot weather usually appears in December and July respectively.

The annual precipitation is from 218.30 to 480.10 millimetres (mm), whereas the annual evaporation in the region is about several times more than the amount of precipitation, which is from 2220.9 to 2920.8mm. As a consequence, there is no perennial river in the mine area, and a few seasonal streams or rivers flow through the tenement.

The frost period in the mine area is from October to April of next year, the maximum thickness of frozen earth could reach around 1.5 meter (m).

5.3 Local Economy and Infrastructure

The region is a typical habitation for Han nationality and minorities as Mongolian, Hui and others. The population is not dense but seems enough for mining and other industrial activities.

The basic economic activity is dominated by farming, while animal husbandry, handicraft manufacture as well as mining are secondary industrial activities. The power and coal supplies are quite convenient for local mining industry.

6 GEOLOGICAL AND MINERAL INVENTORY ASSESSMENT

6.1 Data Collection and Methods

SRK assessed the Dongduimiangou gold mine by reviewing sampling, analytical procedures and quality control methods, the amount of sampling of drill holes, trenching, and geochemical mapping. In SRK's opinion, general exploration techniques which have been used for sampling of the mineralisation are acceptable being of industry standard. These techniques include drilling, trenching, and geological surveying of the exploration project. Samples of mineralisation collected from the deposit site are assayed internally and sent to other laboratories for external analysis.

6.2 Resource Categories and Resource/Reserve Estimates

The resource of the Dongduimiangou gold deposit reported in the section was estimated by a Chinese company using Chinese resource classification according to the Chinese National Standard for Solid Mineral Resources/Reserves Classification (GB/T17766-1999). This is a three-digit system, where the last digit indicates the geological certainty, 1 stands for measured mineral resource, 2 for indicated mineral resource, 3 for inferred resource and 4 for predicated resource. However, this system is different from the criteria used in defining a resource under the JORC code. Comparison between different systems is provided in Appendix II.

SRK reviewed methods used by the Company to estimate resources of Dongduimiangou deposit and is satisfied that Inner Mongolia Tianxin Geological Exploration and Development Limited ("Tianxin") and China Non-ferrous Metals Geological Survey ("CNMGS"), who are qualified and approved Chinese independent geological consultants, have used methods and procedures complying with Chinese standards for resource estimation. SRK notes that the resources and reserves estimation report by Tianxin was recognized by Inner Mongolia Bureau of Land and Mineral Resources in July 2008 and December 2008, respectively, but that the resources and reserves estimation report by CNMGS has just sent to the relevant Chinese authority for recognisation.

Resources and reserves estimates are one of the input parameters used in the preparation of this Report. The Company's resources and reserves estimates were reported in accordance with the requirements of the Chinese system. SRK is satisfied that the resources and reserves have been estimated in adherence to requirements as prescribed by the governing state committee for resources at particular stages of project development. These conventional methods have generally been applied conservatively and to the required standard of diligence. It is SRK's opinion that current individual estimates are reliable globally, although they may not in full compliance with the JORC code.

SRK reviewed resources and reserves estimates provided by the Company and, wherever possible, reassigned the resources and reserves estimates to compare them with categories similar to those used by the JORC code. This was conducted in order to standardise the categorisation.

6.3 Sampling, Analytical Method and Quality Control

China has its own system and requirements for quality assurance and quality control (QA/QC) for different stages of exploration of various types of mineral deposits. The Geological Brigade, which has the qualifications for conducting exploration, followed the prescribed procedures for QA/QC, complying with Chinese regulations. However, as current Chinese mineral reserve codes or regulations are not fully recognised in Western countries, the QA/QC procedures used at the Company's projects are not necessarily compliant with the JORC code. The main differences between Chinese resource standards and the JORC code are in the areas of sampling and assaying.

The JORC code is stricter on drill core recovery, the qualification of the assaying laboratory and insertions of control samples into assaying programs.

6.4 Regional Geology

Tectonically the area of interest is located in Nuluerhu uplift belt of North China Platform. There are gold occurrences distributed along the both sides of the uplift belt. The regional geological settings are shown in Figure 6-1.

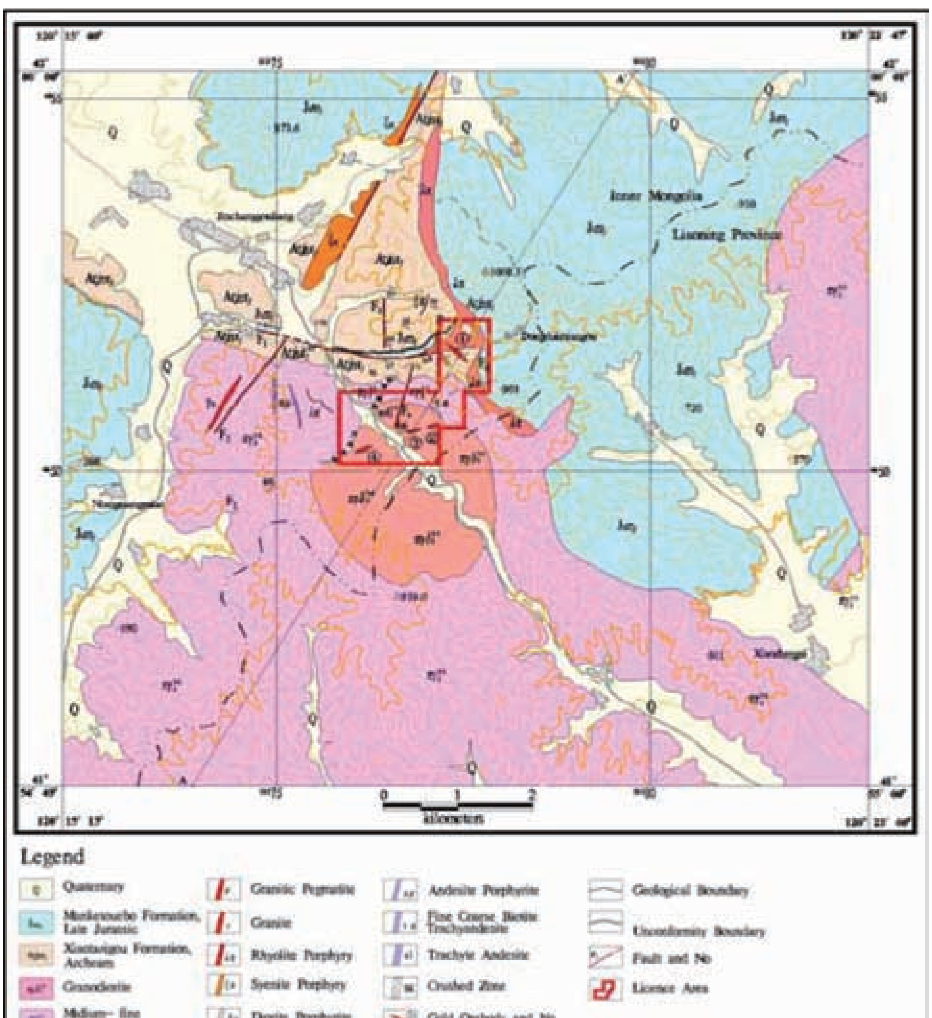

Figure 6-1: Regional Geological Setting of the Project

6.4.1 Stratigraphy

The regional Palaeozoic strata are classified to Daqingshan zone of Yinshan sub-zone of North China stratigraphic zone, and regional Mesozoic strata are Ningcheng-Aohan zone of Daxing'anling– Yanshanian sub-zone of offshore Pacific strata. As shown in Figure 6-1, regional outcropped strata are represented by metamorphic rocks from Xiaotazigou Formation of Archaean Jianping Group (Ar*jnx*^{1}) and continental volcanic rocks from upper Jurassic of Mesozoic, as well as the wide distributed Quaternary covers. The detailed descriptions of the regional stratigraphy are discussed as following:

Xiaotazigou Formation of Jianping Group (Ar*jnx*^{1}): The lithology in this formation is mainly characterised by migmatitised (migmatite oriented) plagioclase-amphibole-gneiss (amphibolite gneiss), and secondly by magmatitised amphibole-biotite-plagioclase-gneiss and other migmatite. The occurrences of gneiss are stable, striking to north-westerly ("NW") and dominantly dipping to north-east ("NE") with dip angle 70 to 89°. This formation usually crosses the ore veins, and the outcropped thickness in the region is about 1200m.

Manketouebo Formation of upper Jurassic (J3m^1): This formation consists of rhyolitic breccia lava, and local intermediate-acidic tuff with thin layer of tuff sandstone or shale, as well as rhyolite, rhyolitic porphyry and andesite. Regionally the thickness of the formation is greater than 400m.

Quaternary (Q): The Quaternary system is widely distributed in riverbeds, stream valleys and lower terrace, with thickness varying from 10 to 50m.

6.4.2 Structures

Regional tectonic features are impacted by major faults, appearing as the basal blocks, folds and subsidiary faults.

Folds

Folds mainly developed on the basement, Archaean metamorphic rocks. Nuluerhu uplift zone is an anticline, in the both wings of which there are a series of sub-folds developed with the fold axis striking about 60~70°. The fold series in the region extends several kilometres.

Faults

Regional faults were formed in various stages, while most of them developed after the period of late Palaeozoic. In different stage, faults formed with different orientation. Generally, faults in late Palaeozoic Era are dominated by east-west ("E-W") direction and north-east ("N-E") direction; and the orientations of faults formed in Mesozoic are represented as north-north-east ("NNE") and occasional north-west ("N-W"). Faults are closely related to the tectonic basins, volcanic mechanism and mineralisation.

6.4.3 Magmatism

The magmatic intrusions in the region are active and widely distributed. The outcropped area of the intrusions accounts about 1/3 of the regional area. There is a considerable N-E orientated intrusion along the axis of Nuluerhu Anticline.

Intrusive rocks are represented by acidic granite, diorite, and granite diorite. The intrusion occurred in Yanshanian Stage especially in late Yanshanian Stage has the closest relationship with regional gold mineralisation.

6.4.4 Regional Mineralization

Nuluerhu uplift zone is a gold/polymetallic metallogenic zone, and along the both sides of the zone, there distributed two symmetric subsidiary mineralised belts, namely Jinchanggouliang-Beizifu and Shajingou-Sijiazi.

Jinchanggouliang-Beizifu Subsidiary Belt is located in the northwest side of Nuluerhu uplift, extending about 40km long. In the belt, there are about 20 gold deposits or occurrences, which concentrated into two gold mine fields, namely Jinchanggouliang and Beizifu-Daheishan.

Shajingou-Sijiazi Subsidiary Belt extends about 100km, which has more than 20 gold deposits or gold mineralisation discoveries.

In addition to gold deposits, iron and polymetallic deposits are also distributed regionally, as well as fluorite, silica, limestone and other non-metal deposits.

6.5 Deposit Geology

The description of deposit geology includes stratigraphy, tectonics (structure), plutonic and intrusive rocks (magmatism), metamorphism and alteration. Figure 6-2 shows the deposit's geological settings of Dongduimiangou gold mine (boundary of mining license is provided with red lines).

Dongduimiangou is one of the gold mines in Jinchanggouliang mine field, classified as a mediumsized gold deposit. Tectonically the mine area is seated in Nuluerhu uplift zones and the basement was stable in earlier periods until in Yanshanian Stage the tectonic activities happed more frequent. The structural basin, dome, and complicate faults formed during Mesozoic Era are presented as main features of the current tectonic framework in the mine area. The stratigraphy in the deposit area is represented by Xiaotazigou Formation of Jianping Group (Arjnx1) from Archaean, Manketouebo Formation of upper Jurassic from Mesozoic, and a wide distribution of the Quaternary. Magmatic activities occurred intensively and frequently during Yanshanian Stage (in or after Mesozoic), consequently the volcanic and intrusive marks could be widely observed in the area. Regional metamorphism impacted the rocks from Xiaotazigou Formation and there were alteration occurred on the host works.

6.5.1 Stratigraphy

The Xiaotazigou Formation of Jianping Group (Ar*jnx*^{1}) is the mostly outcropped stratum in the deposit area, and outcrops are secondly represented by Manketouebo Foramation from upper Jurassic (J_3m^1).

Xiaotazigou Formation of Jianping Group (Ar*jnx*^{1}):

This formation is a series of intermediate-heavy metamorphic rocks, which strikes in NW direction, generally dipping to NE with dip angle 75° to 88°. The thickness in the deposit area is about 767m. The lithology in the formation is mainly characterised by migmatitised (migmatite oriented) plagioclase-amphibole-gneiss (amphibolite gneiss), and secondly by miamatitised amphibole-biotiteplagioclase–gneiss and other migmatite.

Manketouebo Formation of upper Jurassic (J_3m^1):

This formation is distributed in the northeast part of the mine area and the lower part of it cropped out locally. The lithology is mainly characterised by rhyolitic breccia lava, and secondarily by breccia lava, lava breccia, with local intermediate-acidic tuff with thin layer of tuff sandstone. The thickness of the formation is about 76m.

Quaternary (Q): The Quaternary system is widely distributed in riverbeds, stream valleys and lower terrace, with thickness varying from 10 to 50m.

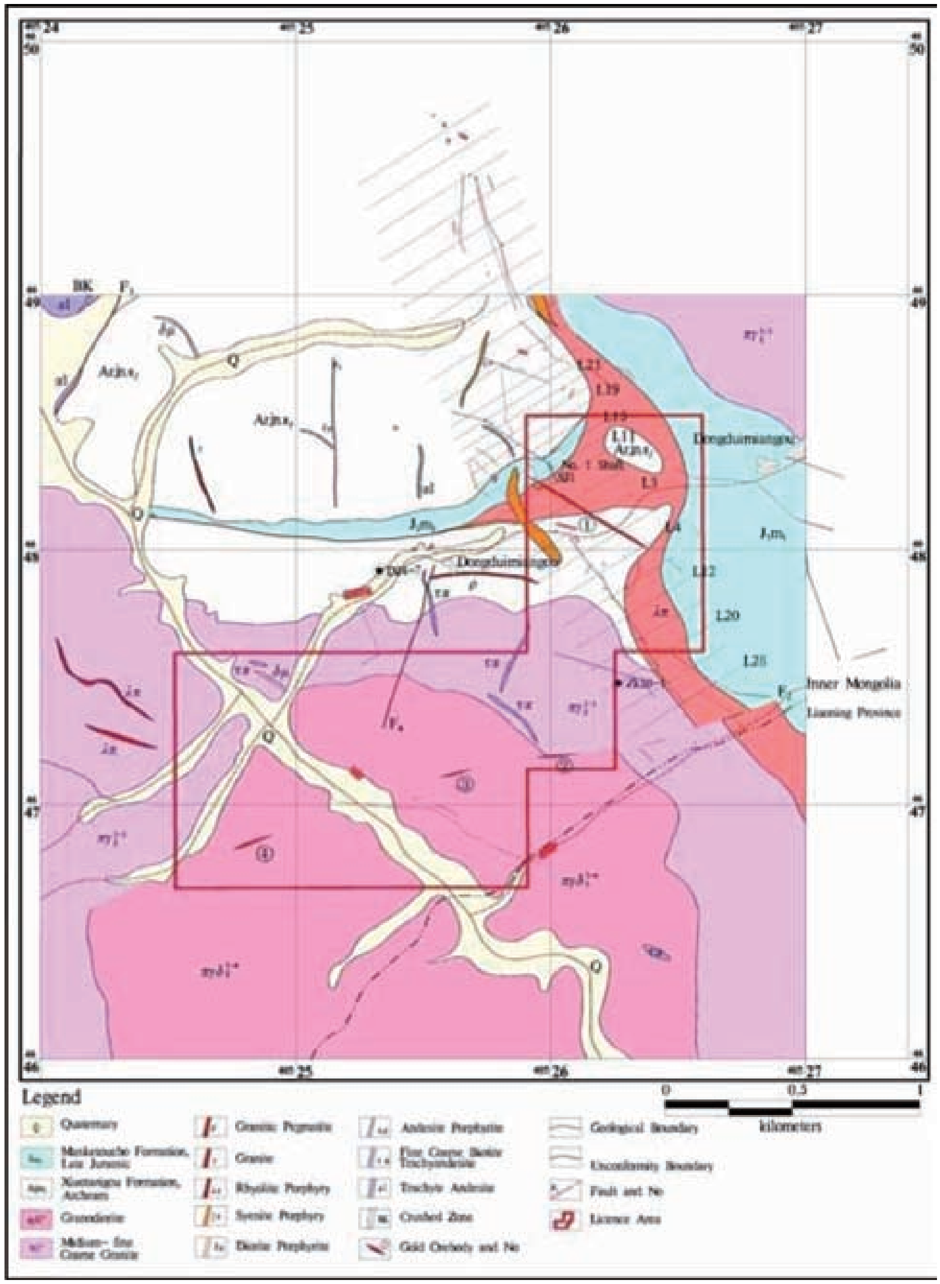

Figure 6-2: Geological Map of Dongduimiangou Deposit

Xiaotazigou Formation is the most important ore-bearing stratum, which is surround by Mesozoic volcanic rocks in the east and north side. To the west of the formation, outcrops of porphyroid granite with intermediate-fine grains occupy about 0.026km^2. According to the previous research, the country rocks are made of a series of volcanic rocks, which are dominated by intermediate and basic rocks.

6.5.2 Structures

Tectonically the mine area is seated in Nuluerhu uplift zones and the basement was stable in earlier periods until in Yanshanian Stage the tectonic activities happed more frequently. The structural basin, dome, and complicate faults from Mesozoic are presented as main features of the current tectonic framework in the mine area.

Basement Structure

The basement of Dongduimiangou mine is Archaean gneiss. There are fissuring occurred and the strike of gneiss is NW; the overall dip to NE, with dip angle at 75° to 88°. Locally folds are discovered in the basement.

Faults

Faults are the major structure in the deposit area, which were formed in various stages, while most of them were formed in Yanshanian Stage. Sorted with the period, faults are classified with E-W, S-N, N-W and N-E orientated types, among which, the E-W, S-N and N-W orientated faults were formed in the metallogenetic period and N-E directional faults were formed after the metallogenetic period. Faults are closely related to the tectonic basins, volcanic mechanism and mineralisation.

6.5.3 Magamtism

The magmatic intrusions are active and widely distributed in the south part of the mine area. Intrusive rocks are represented by acidic granite, diorite, and granite diorite. The intrusion occurred in Yanshanian Stage especially in late Yanshanian Stage has the closest relationship with regional gold mineralisation.

6.5.4 Metamorphism and Alteration

Regional metamorphism impacted the rocks from Xiaotazigou Formation and there were alteration occurred on the host works. The main rock types are migmatitised plagioclase-amphibole-gneiss (amphibolite gneiss), plagioclase-amphibole, miamatitised biotite-plagioclase-gneiss, miamatitised amphibole-biotite-plagioclase-gneiss, migmatite and granitization granite.

The Alteration of wall rocks is represented by chloritisation, pyritization, silicification and carbonatation, showing a product in middle-low temperature related to the metallogenic activities.

6.6 Mineralized Body Geology

Totally, 26 orebodies were discovered in Dongduimiangou mine through the latest exploration, namely Nos. 1 to 26. As wall rocks are represented by porphyriod granodiorite (granite-diorite) and the ore veins are mainly quartz veins rich in sulfide and structural fracture altered rocks, there are obvious boundaries between wall rocks and ore veins. Therefore it is not difficult to determine the wall rocks and orebodies. Of the 26 orebodies, orebody No. 1 is the major orebody of the deposit.

Orebody No. 1 is located in the central part of the license area, and is the currently developing property. This orebody appears vein-like shape. The strike of orebody No. 1 is 328°, and the dipping Comment [Y8]: HKEx Ch 18 Rule 18.09 (6) (b) direction is SW with dip angle at 68° to 78°. Orebody No. 1 was controlled by 21 surface trenches and 5 adits.

On the surface, orebody No. 1 was explored with 21 trenches. The length controlled by trenching is 1,450m and the thickness varies from 0.50 to 2.00m, with an average number at 0.87m. The gold grade discovered by trenching is at a range of 1.04 to 33.60 gram per tonne (g/t), same as parts per million "ppm"), with an average grade at 6.02g/t.

In depth, orebody No. 1 was explored with adits in three sections, namely the north, middle and south sections. Adit PD1 in the north section currently has been developed with 3 levels with interval at 40m. Prospecting with PD1, the controlled orebody is 137.5m long and 0.48 to 1.95m thick with an average number at 1.02m. The discovered gold grade varies from 1.95 to 5.31g/t, with an average number at 3.41g/t.

Adit PD2 in the middle section controls 300m of the orebody No. 1 and the thickness is 0.49 to 1.50m, with the average grade of 0.96m. The grade of gold mineralisation discovered with PD2 varies from 1.40 to 8.98g/t, with the average grade of 5.23g/t. Adit PD3 located in the middle section controls 370m of the orebody No. 1 and the thickness is 0.49 to 2.00m, with the average grade of 1.48m. The grade of gold mineralisation discovered with PD3 varies from 2.10 to 16.00g/t, with the average grade of 7.58g/t.

In the south section, 2 adits namely Adit MPD1 and MPD2 are conducted to explore the orebody. Adit MPD1 controls 213m of the orebody No. 1 and the thickness is 0.49 to 2.00m, with the average grade of 1.48m. The grade of gold mineralisation discovered with MPD1 varies from 2.92 to 15.60g/t, with the average grade of 8.17g/t. Adit MPD2 controls 30m of the orebody No.1 and the thickness is 0.98 to 2.00m, with the average grade of 1.50m. The grade of gold mineralisation discovered with MPD2 varies from 1.33 to 5.64g/t, with the average grade of 4.08g/t.

Overall, the thickness of orebody No. 1 varies from 0.49 to 2.00m, with an average thickness at 1.01m and the coefficient of thickness variation at 102%. The grades of ores from the body are generally discovered at a range from 1.22 to 33.60g/t, and the average grade is 6.02g/t with a coefficient of grade variation at 136%. The inclined depth of the orebody was controlled for 249m.

There are other 25 orebodies are discovered by trenches and underground workings and the summary of 26 orebodies in the deposit area is shown in Table 6-1.

Table 6-1: Characteristics of Defined Orebodies

Orebody	Length (m)	Average Thickness	Occurrence (Dip/Dip Angle)	Average Grade (g/t)
No.1	1,450	1.01	230°∠73°	6.02
No.2	879	0.70	20°∠80°	10.40
No.3	194	0.54	not defined	14.70
No.4	200	0.78	not defined	10.45
No.5	330	0.70	30°∠70°	9.11
No.6	253	0.70	35°∠70°	9.58
No.7	85	0.50	170°∠73°	7.23
No.8	82	0.50	225°∠70°	8.92
No.9	430	0.87	205°∠68°	12.60
No.10	100	0.60	125°∠70°	4.70
No.11	250	1.10	20°∠70°	2.46
No.12	660	1.26	20°∠70°	3.08
No.13	60	0.47	45°∠69°	22.48
No.14	60	0.50	45°∠69°	20.50
No.15	170	0.90	225°∠70°	6.88
No.16	90	0.50	225°∠70°	1.89
No.17	110	0.69	225°∠69°	1.95
No.18	80	0.40	230°∠67°	11.50
No.19	85	0.80	230°∠65°	2.40
No.20	130	1.00	230°∠70°	5.98
No.21	250	0.65	225°∠72°	4.54
No.22	230	0.73	210°∠76°	5.17
No.23	45	0.50	250°∠69°	6.18
No.24	45	0.50	248°∠70°	3.14
No.25	300	0.70	265°∠74°	4.73
No.26	60	0.70	80°∠75°	8.42

6.7 Mineralogy and Ore Characteristics

6.7.1 Ore Types

According to the proportion of iron oxides, the ores are classified as oxidised and primary types (see Table 6-2).

Table 6-2: Classification Basis for Oxidised and Primary Ores

Proportion of Iron Oxide	Classification
>30%	Oxidised Ore
10%~30%	Mixed Ore
<10%	Primary Ore

The analytical results on two samples taken from trenches and drill holes show that the proportion of iron oxide are 9.82% and 5.38% respectively, which indicate the ore samples are of primary type.

Other analysis and observations also support the point that most of the ores in the deposit area are of primary ones.

The natural type of ores is dominated by quartz vein, and based on the compositions of other minerals there are 4 types of ores, namely gold-bearing quartz vein with pyrite, gold-bearing quartz vein with pyrite and chalcopyrite and some other minorities such as gold-bearing quartz vein with chlorite and gold-bearing quartz vein with sericite.

Based on the structure of ores, classifications are as veinlet type, disseminated type and compact blocky type. The industrial ore type is blocky sulfide ores.

6.7.2 Mineral Components

The ores comprise ore and gangue minerals, and ores in the deposit are enriched with sulfides. The majorities of the ore minerals are native gold, pyrite, chalcopyrite, galena, sphalerite, and tetrahedrite. The secondary ore minerals include chalcocite, freibergite, bornite, arsenopyrite, magnetite, hematite, covelline, malachite and limonite. Gangue minerals in the ores are represented by quartz, sericite, chlorite, calcite, potash feldspar, plagioclase, hornblende and kaolin.

Ore minerals account for about 10.21% in mass of the total compositions. Pyrite is a major ore mineral and accounts for about 78% of all ore mineral components. Quartz, chlorite and sericite are the main gangue minerals, which account for about 90% in the ore.

Some of the ore minerals are described as follows:

Native gold is an important mineral containing gold for this deposit, with bright yellow colour and good ductility, strong metallic luster. Native gold in Dongduimiangou mine is hosted in ore sulphide minerals, i.e. pyrite in particular. The analysis of native gold grain sizes are shown in Table 6-3.

Table 6-3: Statistics of Grain Sizes of Native Gold in Dongduimiangou Deposit

11 Samples	>0.295mm	0.074~0.295mm	0.037~0.074mm	0.010~0.037mm	≤0.01mm	Total
Grain Counts	1	29	309	1184	378	1901
Proportion %	0.05	1.53	16.25	62.28	19.88	100

Pyrite as major sulphide component is also the main carrier of gold. Pyrite takes about 78% in proportion of the ore minerals. It occurs in euhedral, subhedral or anhedral forms, usually disseminated in quartz and other gangue minerals. The granularities of pyrite vary from millimetre level to several centimetres. The analytical results of chemical compositions in pyrite are listed in Table 6-4.

Table 6-4: Chemical Analysis of Compositions in Pyrite*

Sample ID	Fe (%)	S (%)	Au (ppm)	Ag (ppm)	Cu (ppm)	Pb (ppm)	Zn (ppm)	Co (ppm)	Ni (ppm)	Se (ppm)	Te (ppm)	As (ppm)	Sb (ppm)	Bi (ppm)	Hg (ppm)
L3-3-6	46.42	52.29	55	12	18	129	0	65	223	1.2	17.6	34	0	43	0.2
L3-4-3a	46.78	52.32	226	31	21	354	0	27	144	1.0	10	21	1	27	0.4
L3-4-3b	46.80	52.65	350	45	23	378	0	24	23	1.1	7.2	25	1	23	0.3
L3-6-11	47.48	53.41	852	76	22	275	211	84	146	0.1	6.6	31	0	87	1.9
Average	46.87	52.67	370.8	41	21	284	52.8	50	134	0.9	10.4	27.8	0.5	45	0.7
Normal Gold Deposit			336	0.6	99.4	70	134	35.9	34.1	50		7670	114		

* Normal Gold Deposit" refers normal hydrothermal gold deposits developed in middle-low temperature

Chalcopyrite also acts a carrier for gold, which accounts for 0.3% to 2% of ore minerals. Chalcopyrite shows irregular shapes with disseminated and blocky structure. It is usual that some pyrite was replaced by chalcopyrite, forming the structure of replacement remnant.

Galena appears in subhedral or anhedral granular forms. Mainly grain sizes of galena vary between 0.03 and 1mm, and occasionally fine grains size can be small as 0.005 mm. Galena is often discovered at the end of ore veins.

Sphalerite is discovered with different size of grain. Coarse grain could reach 2 mm, while fine grains can come down below 0.02mm of diameter but predominant granularity varies between 0.03 and 1mm. Commonly, sphalerite is closely associated with native gold.

Arsenopyrite is hosted in altered type of ores of biotite leptynite and the ores with silicification.

The main gangue minerals are described as follows:

Quartz: is the major gangue mineral, which accounts for almost 82% of the ore contents. Quartz appears crystalline, anhedral crystals or grains of size variable from 0.02 to 2 mm, some between 0.01 and 0.05mm. Quartz occurs associated with sericite, chlorite and calcite, as well as ore minerals.

Sericite and Chlorite: are both major minerals of altered rocks, which present fine grained, crystalloblastic texture, alteration products from feldspar, pyroxene, hornblende and biotite. Sericite and chlorite are intercalated with other minerals like quartz, calcite, and feldspar.

Calcite: Associated with quartz, sericite and chlorite, sometimes found in thin veins or around sulphides.

The compositions of ores from different sample results are shown in Table 6-5, Table 6-6 and Table 6-7. Table 6-5 shows the results from chemical analysis of one sample and Table 6-6 shows spectral analytical results of 22 samples.

Table 6-5: Compositions of Ores – Chemical Analytical Results

Component	TFe	As	TiO2	MgO	CaO	Al2O3	SiO2
Content	9.40%	0.05%	0.62%	1.11%	1.10%	9.47%	76.50%
Component	Au	Ag	Cu	Zn	Pb	Sb	MnO
Content	5.02g/t	14.54g/t	0.03%	0.05%	0.06%	0.003%	0.07

Table 6-6: Element Contents in Ores – Results from Spectral Analysis

Component	Ag	Pb	Zn	Cu	Cr	Ni	Co	Ti	V
Content (ppm)	0.0009	0.0087	0.0009	0.0191	0.0102	0.0011	0.0014	0.0448	0.0016
Component	W	Sn	Mo	Bi	Zr	Y	As	Be	
Content (ppm)	0.001	0.0018	0.0008	0.0029	0.0018	0.0006	0.004	0	

Table 6-7: Analytical Results of Compound Samples

Sample ID	Au	Ag	Pb	Zn	Cu	Sb	Mo	Co	WO3	S	As
	$\times 10^{-6}$	$\times 10^{-6}$	%	%	%	%	%	%	%	%	%
Z1	6.26	15.26	0.085	0.13	0.012	0.01	0.001	0.005	0.03	0.23	0.025
Z2	6.30	16.13	0.060	0.17	0.018	0.02	0.005	0.003	0.02	0.56	0.021
Z3	4.38	20.31	0.060	0.05	0.030	0.01	0.002	0.006	0.03	0.95	0.023

According to the analysis on the compositions of ore, gold (Au) mineralistion has a positive correlation to the content of silver (Ag), copper (Cu) and lead (Pb), and the high content of sulfides is an indication of Au enrichment.

Generally gold and silver are utilisable benefit elements. The principal benefit element is gold (Au) with an average grade at 9.71g/t in Dongduimiangou mine, and associated benefit compositions is silver (Ag) with an average grade at 16.88g/t. Copper (Cu), lead (Pb), Zinc (Zn) and antimony (Sb) have low grades, so they can not be utilized. The only harmful element is arsenic (As) with content about 0.021%~0.025%, which are low as well.

6.7.3 Structures and Textures

The main structures of ores for Dongduimiangou mine are firstly represented by the types of blocky and disseminated structures, and secondarily marked by veinlet, banded and brecciform structures, among which the banded and veinlet structures are sometimes related to high grade ores. The main ore minerals, such as pyrite, galena and sphalerite, occur mainly in disseminated form in gangue minerals. Stockwork-like veinlets are also present composed of quartz with associated ore minerals.

Textures of ores in the deposit area are characterised by euhedral or subhedral crystal granular and replacement remnant texture are discovered in the ores. The main types of ore textures are discussed as below.

- Euhedral or subhedral crystal granular texture: The pyrite presents as euhedral or subeuhedral crystal or grains distributed in the gangue minerals.

- Metasomatic replacement texture: The chalcopyrite and galena replaced pyrite. Also the galena was replaced by sphalerite, and its remnants are distributed in the sphalerite.

- Anhedral granular texture: Sulphides and native gold occur in the ore as anhedral, irregular grains.

- Cataclastic texture: The pyrite and gangue components are compressed and crushed to small size; galena, quartz and other gangue minerals fill in the fissures, associated with the little of native gold.

- Poikilitic texture: The native gold is irregularly scattered without common orientation in pyrite, galena, sphalerite and quartz etc.

- Mylonitic texture: Mylonitic texture is usually observed in the sub-structural plane, with Wall and Waste Rocks

6.7.4 Host Rocks and Waste Rocks

Host rocks are represented by migmatitised (migmatite oriented) plagioclase-amphibole-gneiss (amphibolite gneiss), and miamatitised amphibole-biotite-plagioclase-gneiss. There are weak alteration occurred on the host rocks, which are characterised by alteration to sericite, chlorite, silica and pyrite. There is distinct boundary between host rocks and orebodies, therefore it is not difficult to distinguish them.

As the orebodies are controlled by local tensional and compressive structure, the continuity of gold mineralisation is not steady. However, due to the orebodies (mineralized bodies) of Dongduimiangou mine are in thin layer and with single vein, there is no considerable band rocks (waste rocks) or inclusions.

6.7.5 Mineralization Genesis

According to relevant studies on the mine and neighbour gold mines, the deposit was believed to be hydrothermal type in middle-low temperature. Quartz veins with sulfide and structural fracture altered rocks could be regard as marks to explore ores. Intrusions of granite in Yanshanian Stage discovered near orebodies indicate good conditions for mineralisation.

6.8 Exploration, Sampling and Assaying

6.8.1 Exploration Overview

From August 2006 to November 2008, general exploration and later additional work in Dongduimiangou mine was carried out by Tianxin, and the physical workload completed by former geological brigade and Tianxin in various periods is summarized in Table 6-8.

Table 6-8: Workload Completed before 2009

Item	Unit	Prospecting Period	General Exploration Period	Additional General Exploration	Total Workload
1:10,000 Geological Survey	km^2	2.07			2.07
1:2,000 Geological Mapping	km^2	3.35			3.335
Trenching	m^3	500			500
Drilling	m			358.3	
Adit	m		2495		2495
Shaft	m		157		157
Basic Samples	piece	131	690	45	866
Compound Samples	piece		3		3
Grab Samples	piece		56		56
Internal Check	piece	8	81	15	104
External C heck	piece	18	28	10	56
Spectral Analytical Samples	piece	3	19		22
Polished Section	piece	1	9		10
Thin Section	piece	3	25		28
Ore Testing Samples	piece		1		1
Rock Physical Analysis	piece		3		3
Chemical Assaying	piece		3		3
Physical Phase Analysis	piece		4		4

From late September 2009 to January 2010, CNMGS was commissioned by Xinruien conducting a site investigation and completing verification and updating for the resources estimation. According to the report provided by CNMGS, the workload taken place in 2009 is listed Table 6-9.

Table 6-9: Workload Completed in 2009

Item	Unit	Workload
1:2,000 Topo-geological Mapping (Modifying)	km^2	5
1:1,000 Profile Survey	m	1,140
Mineralised Body Investigation	m	6,300
Logging of Underground Working	m	4,140
Drilling	m	900
Trenching	m^3	500
Sample Assaying		462
Photographing		55
Adit Survey	m	4,560.20

6.8.2 Quality Assurance/Quality Control on Exploration, Sampling and Assaying

Reportedly the exploration work is based on the Chinese Specification for Gold Deposit Exploration, and SRK noticed that both Tianxin and CNMGS have the qualification of geological exploration, which might suggest the report prepared by them should in accordance with Chinese Standards.

According to the specification, the type of exploration for Dongduimiangou Deposit is set as Type II, and the basic exploration spacing is determined as 60m (along strike) by 40m (along dip). And for some of the orebodies, the exploration type is set as Type III, therefore the exploration spacing is assigned as 30m by 30m.

Trenches, adits as well as boreholes were used to explore the orebodies. Trenches are excavated in perpendicular to the orebody strike with start width from 1.5 to 2.0m, and the bottom width is generally more than 0.8m, with a depth around 3m, which could disclose the rocks about 0.5m. Adits are excavated with inclined and various levels with the width from 3 to 5m and height about 1.9m. Totally 9 boreholes were drilled in 2008 and 2009, which are all vertical holes. The start diameter of boreholes is 91mm and it was finished at 75mm, while the diameter of ore cores is 49mm. Reportedly, the down hole survey has been conducted in compliance with the exploration standards, and the core recovery is 94% to 96%. The log of drilling program was done on site and sealing of boreholes are completed with cement marks.

Maps of cross sections are produces with the discoveries by trenching, underground working as well as drilling program. Figure 6-3 and Figure 6-4 show the typical cross sections of Dongduimiangou Deposit.

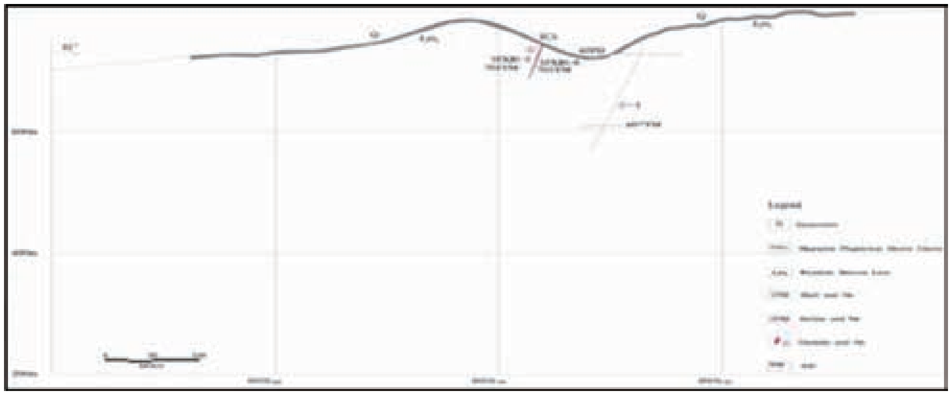

Figure 6-3: Typical Cross Section of the Deposit – Exploration Line 8

The geological survey was done with the coordinate system of Xi'an 1980 and elevation system of National 1985. Survey of boreholes and trenches are completed with stationary RTK and handholding GPS, which could fulfil the requirements of the accuracy.

The trenches and adits were sampled using channel sampling; samples in trenches generally were collected along its bottom, while in adit the middle part of the wall were sampled and almost all channel sample length ranges at 0.8 to 1.2 m with sample section size of 10am wide ×5 cm deep.

The drilling cores were split to halves; one halves were sent to laboratory for assaying, and another was stored in core boxes for further reference. However the mines have not kept all the drill cores. Regularly sampling length is 1.00m and no more than 1.50m. The basic assayed elements for drilling core samples were Au and Ag.

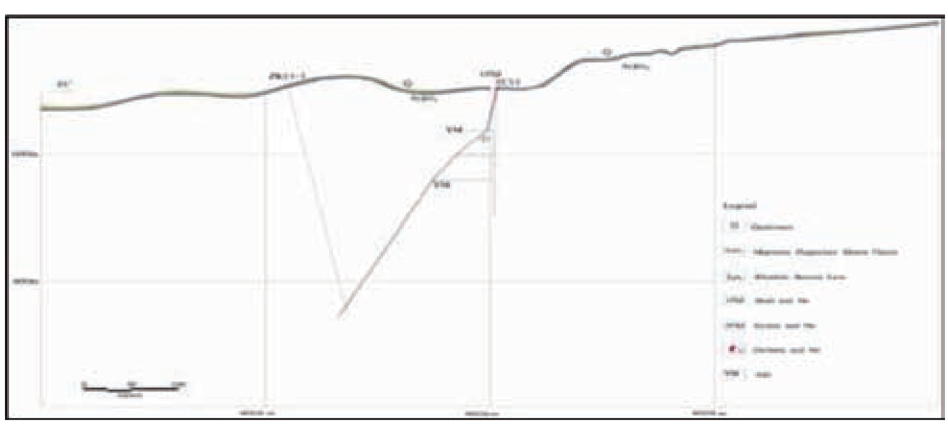

Figure 6-4: Typical Cross Section of the Deposit – Exploration Line 13

Grab samples were used for determine the ore density, which were collected from trenches, drill core and underground workings, sample size about 10×10×10cm were packed and sent to laboratory soon after sampling. The result of ore density is 2.93 tonnes per cube meter (t/m^3).

The samples for polished thin section and microscope indentification were collected from a numerous different locations with standard sample size of about 3×6×9cm. Another kind of samples was also collected from newly outcropped ores, with size of 4×7×10cm. The samples for emission spectral analysis were collected with usual field weight ranging from 300g to 2000g.

The processing and analysis for basic samples were conducted by the laboratory of Intertek in 2009 and No. 3 Lab of Liaoning Bureau of Geology and Mineral Resources. The sample splitting procedure was referenced with the formula of $Q=K*d^2$, where Q is represented for the minimum weight of the samples (kilogram), "d" is represented for the diameter of the maximum sample size, and the splitting coefficient K is set as 1 according to the principle for gold ore samples preparation.

The sample preparation follows a standard procedure i.e.: firstly the sample is crushed down to the size of -10 meshes then split using quartering method to 700g sample which is at size of -30 meshes, and then pulverized to -200 meshes. After that 100 g of pulverized sample is used for analysing the remainders are storage for further references. Reportedly 20g of the samples were used for assaying.

Reportedly there were qualified internal and external check for basic samples (drill core samples), however SRK has no chances to check the original assaying due the duplicate samples are not available anymore and the mining work made the original sampling location none available for resampling. Seen in available reports, the sampling and assaying protocol were under Chinese specifications, and in accordance with the relevant standards.

6.8.3 SRK Checking Samples

In January 2010 SRK was commissioned by Sino Prosper to perform a review all technical aspects of the project. Data verification conducted on site included:

- Reviewing available geological data for the deposit,
- Visiting the exploration program and mining properties,
- Visiting two ongoing drillings and checking sealed collars of drilled boreholes

- Visiting core storage and examining several mineralized core intervals, checking logistics of stored core

- Discussing with the geological personnel about aspects of exploration and ongoing mining

SRK also took 4 samples in the mine during the visit, among which there are 2 samples collected in the drill cores and the other 2 samples collected from 2 levels of adits (underground workings) which SRK has visited. The results are shown in Table 6-10.

Table 6-10: Results of SRK Check Samples

	Au	Ag	As	Cu	Fe	S
Unit	g/t	g/t	g/t	g/t	%	%
SRK001	9.19	4.4	87	98	2.92	1.49
SRK002	9.79	74.1	25	365	7.27	4.49
SRK003	1.89	30.2	363	3934	16.69	13
SRK004	4.88	159.8	1627	13830	17.99	19.83

In Table 6-10, samples SRK001 and SRK002 are from drill cores, and SRK003 and SRK004 are from adits with obvious copper mineralisation. The limited SRK checking samples indicate that the deposit contains ore with economic gold and silver grades.

6.9 Resource/Reserve Estimates

The recent estimates of resources and reserves for Dongduimiangou project were conducted by CNMGS. After reviewing the provided reports and associated maps and tables and discussing the technical personnel from the mine, SRK would like to cite the estimates by CNMGS, including parameters, methods, definition of orebodies and the results of estimates. SRK's comments on the resources/reserves estimates will be provided in the following subsections as well.

6.9.1 Cut-Off's

According to Chinese Specification for Geological Survey on Rock Gold Deposit (DZ/T0205-2002), the cut off grade for primary ores is usually set as 1.0g/t and the minimum mineable thickness is assigned as 0.8m. The following parameters for the resource estimation were adopted by the CNMGS.

- Cut off grade: 1.0g/t;

- Minimum industrial (average ore body) grade: 2.5g/t;

- Minimum average industrial grade of deposit (average deposit grade): 4g/t;

- Minimum mineable thickness: 0.8m;

- Maximum band thickness allowed: 2m;

- Maximum barren gap: (1) corresponding in upper and lower levels of adits (galleries): 10m; (2) not corresponding in upper and lower levels of adits (galleries): 20m;

- When thickness of orebodies is smaller than minimum mineable thickness, determining with m*g/t (see "thickness by grade" is whether greater than 0.8 m*g/t, if yes, included into resources/reserves estimate; else, not included);

- Cut off grade of associated silver (Ag): 2g/t.

- Cut off grade in oxidised boundary: 0.5g/t

6.9.2 Method of Estimation

Considering the orebodies in Dongduimiangou mine are all vein-like bodies with dip angles at a range of 68º – 80º, CNMGS used the conventional Method of Geological Block. The exploration grid was designed based on the Type III Exploration. On surface the length and thickness of orebodies were controlled by trenches, while in depth the length and thickness of orebodies were controlled by tunnels along mineralized bodies' strike on different levels and drill holes.

Briefly, the Method of Geological Block is firstly to divide the whole are into several or dozens of blocks according to geology and exploration results, then to estimate the area, thickness, volume, grade, ore tonnage, and metal resource of each block, and finally to get the result of the whole estimated area by adding the ore tonnage and metal resource of each block. This method is one of the conventional and widely used methods for resources/reserves estimation, which gives a global and rough estimate of the resources or reserves.

Resource tonnage (Q) in each block is the product of ore density (d) multiplying the volume (V) of ore block, as Q=V*d; and V is determined with the true area (S) and average block thickness (m), as V=S*m, where the true area of the block could be estimated with the projected area in the longitudinal projections and the dip angle of ore blocks. The longitudinal projections are substantial for the estimates.

In the estimation of resources and reserves in Dongduimiangou gold mine, the main values are estimated based on the following conditions:

- Average grade of engineering: was calculated by the length weighted method.
- Average grade of Cross-section profile: was calculated by twice average weighted method. Firstly, the cross-section was divided into several small block, and the average grade of every small was calculated by the length weighting (or ore body thickness) method, and then the average grade of cross-section was calculated by small block area weighted.
- Average grade of mineralized block: was calculated by the two section area of same block and same ore body weighted.
- Average grade of mineralized body: the metal quantity divided by the ore quantity.
- Average grade of deposit: the total metal quantity of all the ore bodies divided by the ore quantity of all the ore bodies.
- Cross-section area (S') delineation is by MAPGIS software on longitudinal projected block area.

6.9.3 Definition of Resource Categories

According to Chinese Specification for Geological Survey on Rock Gold Deposit (DZ/T0205-2002), an exploration grid of 30m × 30m was used for delineation of orebodies at the 112b category resource and the 60m × 80m exploration grid is used to delineate the orebodies at the 333 category resource (for orebodies Nos. 1, 2, 3, and 4). Orebodies at the 334 category resource are defined by extrapolation of 333 category resource (for orebodies Nos. 2 and 3) and by prediction on the basis of assaying results of the surface grabs samples for other orebodies of Nos. 6 to 26.

SRK noticed that CNMGS prepared estimates for 122b, 333 and 334 categories of resources. As shown in the longitudinal projections maps of Figure 6-5 and Figure 6-6, the Category 333 resources are inferred mainly from the discoveries with trenching and underground working, and Category 334 resources are inferred in a larger scale from the mineralization discoveries, which shows a kind of prediction.

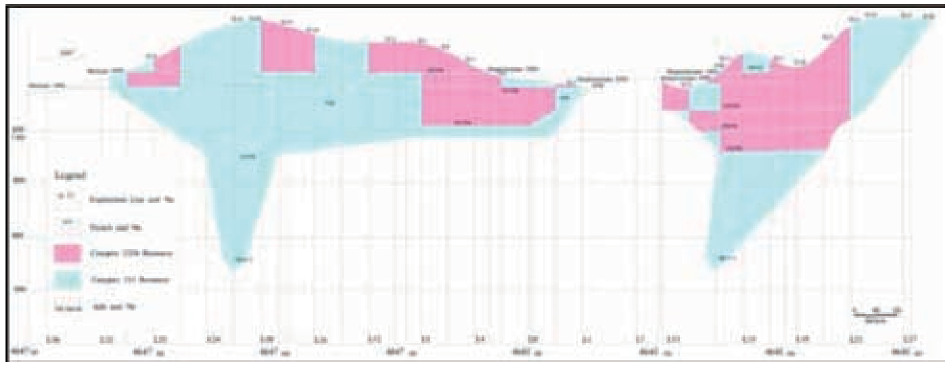

Figure 6-5: Longitudinal Projection of Orebody No. 1

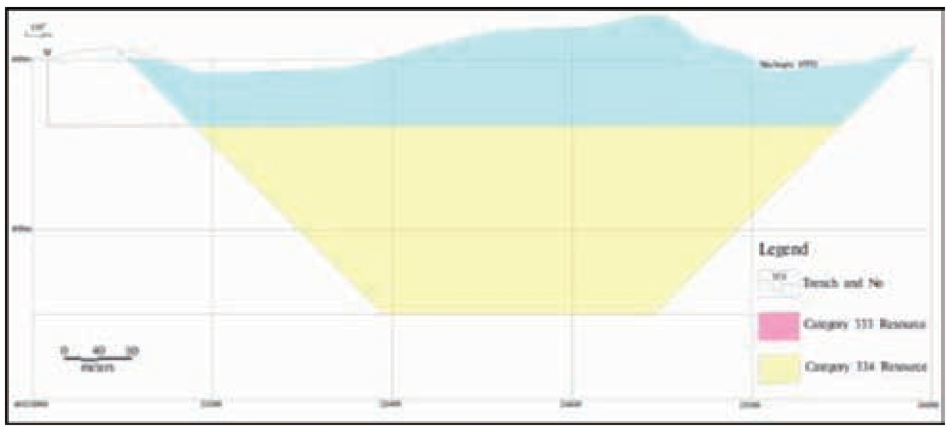

Figure 6-6: Longitudinal Projection of Orebody No. 2

6.9.4 Resource Estimation

Dated by December 31, 2009, the resources of 122b and 333 categories at Dongduimiangou gold mine reported by CNMGS are shown in Table 6-11.

Table 6-11: Estimated 122b and 333 Category Resources by CNMGS*

Orebody	Resource Category	Ore Tonnage (t)	Average Grade (g/t)	Contained Metal Au (kg)
No.1	122b	282484	5.36	1513
	333	448713	6.32	2836
No.1-1	122b	25181	14.10	355
	333	8344	13.95	116
No.1-2	122b	14159	11.57	164
	333	777	4.26	3
No.1-3	122b	34014	8.20	279
	333	2762	7.54	21
No.2	333	157634	16.02	2526
No.3		140665	15.63	2198
No.4		28498	10.45	298
No.5		13137	9.11	120
No.13		3623	22.48	81
No.22		14245	5.17	74
Total	**122b**	355838	6.495	2311
	333	818397	10.109	8273

* *Note:* The mined-out ore resources (i.e. by-product during development) of 18,000t at 122b category with an average grade of 6.50g/t and 28,880t at 333 category with an average grade of 10.11g/t are included in above table.

The Company's 122b and 333 categories' resources estimates were reported in accordance with requirements of the Chinese system and are one of the input parameters used to prepare this Report. SRK is satisfied that the resources have been estimated in adherence to requirements prescribed by the governing state committee for resources at particular stages of project development. These conventional methods have been applied conservatively and to the required standard of diligence. It is SRK's opinion that current individual estimates are reliable and represent a reasonable global estimate of the relevant mineral resources, although they are not in full compliance with the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC code) standard.

The comparison between Chinese resources categorisation and JORC Code is provided Appendix II. Category 122b Resource is similar to the "Indicated Resource" and Category 333 Resource is similar to the "Inferred Resource" in JORC Code, but Category 334 Resource has no similar counterpart in JORC Code.

SRK also reviewed the 334 category resources estimated by CNMGS (see Table 6-12) and found the 334 Resources estimated in Dongduimiangou are extrapolated from the discoveries in trenching and underground workings. Due to the orebodies are mostly not stable enough, SRK would state that the extrapolation from trenching results near the ground surface is not fully reasonable and could not provide enough confidence for the 334 Resource. SRK would suggest that the 334 Resource reported by CNMGS to be kept as a reference for some predicted potential, but not for the current acceptable resource.

Table 6-12: Estimated 334 Category Resources by CNMGS

Orebody	Resource Category	Ore Tonnage (t)	Average Grade (g/t)	Contained Metal Au (kg)
No.2	334	265276	10.10	2679
No.2-1		914	3.81	3
No.2-2		2871	3.42	10
No.3		198947	15.23	3030
No.6		17946	9.58	172
No.7		4358	7.23	32
No.8		4205	8.92	38
No.9		39078	12.60	492
No.10		6346	4.70	30
No.11		28395	2.46	70
No.12		86573	3.08	267
No.14		2564	20.50	53
No.15		16811	6.88	116
No.16		5128	1.89	10
No.17		8307	1.95	16
No.18		1977	11.50	23
No.19		6739	2.40	16
No.20		14867	5.98	89
No.21		17331	4.54	79
No.23		2747	6.18	17
No.24		2564	3.14	8
No.25		22688	4.73	107
No.26		4512	8.42	38
Total	**334**	**761143**	**9.71**	**7393**

6.9.5 Reserve Estimation

In JORC code, only Measured category and Indicated category resources can be converted into ore reserves in JORC Code after consideration of some technical, economic and other factors. Although the Dongduimiangou gold mine is an underground mine and the majority of 122b category resources may be economically mined out, SRK cannot convert the resources into reserves given that that they may not in full compliance with the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC code) standard. Normally, the mining loss and dilution have to be considered during the conversion.

6.9.6 SRK's Recommendations for Future Exploration

SRK noticed there are abundant resources of Category 333 and Category 334 estimated by CNMGS in the exploration area, which may suggest more exploration work including in-fill drilling should be carried out in the all mining licensed areas to verify them and upgrade the resources category. SRK recommends that the QA/QC protocol should be well organized by the Company in future exploration, which involves drilling, sampling, sample preparation, assaying, internal and external check, insertion of control samples i.e. blanks, standards and duplicates. Also it's better for the Company to keep the sample rejects and pulps for further check.

7 MINING ASSESSMENT

7.1 Introduction

Aohanqi Xinruien holds the mining license of Dongduimiangou gold mine located in JinchangGouliang Town, Aohanqi of Inner Mongolia Autonomous Region.

The gold mine consists of 4 independent mining areas occupying an area of 2.0732km^2.

The ore bodies under control are four in which No. 1# orebody is the main orebody. In the deposit area 26 veins various in size are newly discovered in the geological exploration.

In December 2008, Inner Mongolia Yuanbo Engineering Design & Consulting Co., Ltd completed the Resource Development Plan ("Plan"). In the plan the production capacity is designed to mine and process of 100t ore per day (30000tpa), and therefore the service life of the mine will last for 11.3 years. The mine will be developed by shaft and adit, and the shallow shrinkage method is usedas the mining method (the thin ore block is mined by using the cut and fill method). The mining loss rate and the mining dilution rate are both 10% respectively, and the grade of ore mined reaches Au5.87g/t and Ag14.34g/t. In SRK's opinion, considering the potential of resource, the 100t/d production scale seams too small and an expansion is necessary.

Aohanqi Xinruien stated that it proposes to strengthen the geologic exploration in the future and it will, in 2010, begin the reconstruction of the mine including mine development and one new concentrator with processing capacity of 300,000tpa (i.e., 300 working days a year with a daily capacity of 1,000 tonnes) following the Feasibility Study conducted by Changchun Gold Design Institute in December 2009. The total investment will be RMB136 million. It is of SRK's opinion that further exploration programs should be taken to upgrade the resource category and increase more potential resources before the exploration.

7.2 Mining License

Aohanqi Xinruien was granted the mining license to make production in Dongduimiangou gold mine in May 31, 2009. Table 7-1 shows the details of renewed mining license.

Table 7-1: Details of Renewed Mining License

Mining License No.	C1500002009054110029537
Mine owner	Aohanqi Xinruien Mining Co., Ltd
Address	Jinchanggouliang Town, Aohanqi, Inner Mongolia
Mine name	Dongduimiangou Gold Mine
Ore type	Gold mine
Mining type	Underground mining
Production capacity	30000tpa
Area	2.0732 km^2
Mining depth	Elevation between 770m to 534m
Valid period	Three years from May 31st, 2009 to May 31st, 2012
Economic structure	Limited-liability company
Issued by	Inner Mongolia Bureau of Land and Resources

7.3 Mining Conditions

7.3.1 Hydro-geological Condition

There are ground water aquifer in Holocene and Quaternary, a granitoid fissure-table water aquifer of late stage of Yanshan, and metamorphic fissure-table water aquifer of Archaean located in the mining area.

Pore water aquifer locates in the valleys. Lithology of the pore water aquifer is rubble contained sand gravel layers with water bearing height of 0.5~1.0m. Water table is normally 2~3m under the surface. Because of small water flow, deposit mining would not be influenced significantly. As to the granitoid fissure water aquifer of late stage of Yanshan and metamorphic fissure water aquifer of Archaean, the metamorphic rock is the primary wall rock of gold orebodies. Weathered fissure zone of metamorphic rock is an important aquifer. It was reported in the tunnels' hydrological and engineering geological record that the depth of the weathered zone is 15~25m, depth of aquifer is 10.5~20.20m, buried depth of groundwater is 12.10~29.80m, and spring water flow is 0.022~0.506L/s. It was reported by tunnels' information that water inflow is 0.08L/s, unit water inflow is 0.0114L/s.m, and coefficient permeability (K) is 0.0018m/d. The primary source of supplies for groundwater is precipitation water.

Type of hydrology of the deposit is primarily the bedrock fissure filling water. Hydrology of the deposit is simple.

During site visit, at the shaft No. #1 in orebody No. 1, SRK did not find any water at the mining levels of 636mRL and 596mRL and sighted some water at the 556mRL. Historical data indicates water volume of 6.91m^3/d at the 636mRL. The company stated that the water volume has been descending as they go deeper.

7.3.2 Geotechnical Engineering

For the engineering geology, the rocks are consisted of Quaternary loose weak rock, Archaean gneiss, Mesozoic granitoid hard rock, necrolite and dyke hard rock, and gold bearing quartz vein hard rock. Both hanging wall and footwall are Archaean gneiss. The compressive strength is 165.98MPa for hanging wall migmatization anorthosite hornblende gneiss, 113.92MPa for ore rock, and 152.73MPa for footwall anorthosite hornblende gneiss. Rock has an overall stability. Possibility of occurring poor engineering geology is small. Investigation through trenches and tunnels indicates that the rock is hard, and lithology is consistent and hard to break. So the rock belongs to hard rock. Physical-mechanical properties of the rock is strong, and should maintain a good stability. The type of engineering geology is moderate.

SRK finds that the engineering geology work is not sufficient to satisfy with the mine production. It is necessary to do more engineering geology work at the angle of the guarantee of the safe production in the mine and prevention of geological and engineering disasters. The engineering geologic work can be handled in conjunction of the geologic exploration in the mining area.

7.3.3 Ore Reserve Estimation

Cut-off Grade, Ore Loss and Dilution Rate: The cut-off grade as outlined in the previous section is 1.0g/t Au ore. The mining loss and dilution rates are 10% and 10%, respectively if using the shallow-hole shrinkage stoping method.

Ore Reserve Estimation: The Company's resources and reserves estimates at Dongduimiangou gold mine were reported in accordance with the requirements of the Chinese standard. SRK is satisfied that the resources and reserves have been estimated in adherence with requirements as prescribed by the governing state committee for resources at different stages of project development. These conventional methods have generally been applied conservatively and to the required standard of diligence. It is SRK's opinion that the current individual estimates are reliable, although they are not in full compliance with the JORC Code.

In China, the Measured and Indicated resources can convert into reserves and part of Inferred resources can convert into reserves as well. Whereas in JORC, ore reserve can only be converted from Measured and Indicated mineral resources following detailed mine design, where both mining loss and dilution are considered. Sufficient geotechnical information would allow the Company to determine and implement the optimal design.

7.4 Mine Design

7.4.1 Mining Type

Dongduimiangou Gold Mine is an underground mine. Production capacity is 30,000tpa (or 100t/d).The mine produces at 300 days per year, 3 shifts per day, and 8 hours per shift.

Dongduimiangou Gold Mine was being divided as 4 mining areas now, which are Gezidong area (from L27 to L7), Dakuangti area (from L5 to L24), Shuiquangou area and Machegou area (from L24 to L34). Figure 7-1 presents the division of mining areas. SRK didn't find where Shuiquangou area is from the drawings provided by Dongduimiangou Gold Mine.

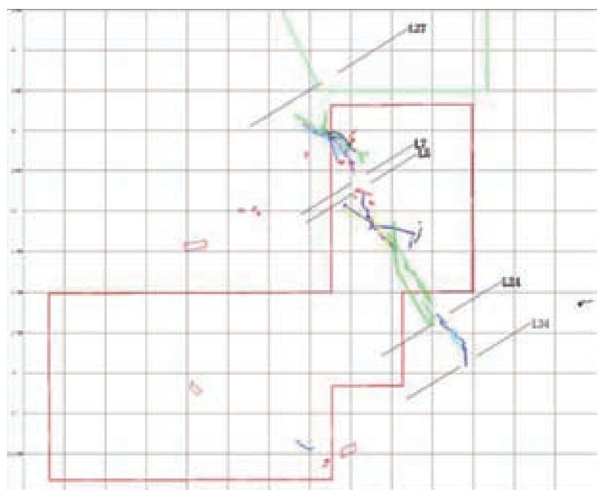

Figure 7-1: Division of Mining Area

7.4.2 Development System

As to the four mining areas, only Gezidong area has finished the preliminary development system, while the other three areas are still in development stage.

Development system adopted in Gezidong area is a shaft development system. The shaft was numbered as No. #1. Three levels of 636mASL, 597mASL and 557mASL and two adits of No. #1 (707mASL) and No. #2 (687mASL) have been completed.

Dakuangti area has completed an adit of No. #2 (684mASL), an incline of No. #2, where level 607m has been driven, and an incline of No. #3, where levels of 705m and 554m have been driven.

In the Machegou area, four adits of No. #1 (678.69mASL), No. #2 (684.29mASL), No. #3 and No. #4 have been driven. Adit of No. #2 has been connected with incline of No. #3 at level of 705m. Adit of No. #3 has been driven more than 120m. Adit of No. #4 has been driven more than 100m. In the Shuiquangou area, three shafts of Nos. #1, #2 and #3 and one adit have been driven. No. #1 shaft has a collar elevation of 653.8m and a depth of 42m. One level has been driven more than 200m. Shaft No. #2 has a collar elevation of 820.4m and a depth of 36m. One level has been driven more than 40m. Shaft No. #3 has a collar elevation of 653.7m and a depth of 44m. One level has been driven more than 30m. The adit has an elevation of 816.8m, and more than 100m has been driven.

7.4.3 Mining Method

The plan proposed to mine primarily the orebody No. #1 which strikes north-westerly (300°) and dips to southwest at an angle of 76°. The orebody is about 1m thick. Shallow-hole shrinkage stoping is planned to mine the majority part of the orebody and where at the extremely thin part cutting and filling mining method is to be adopted. Figure 7-2 indicates a typical shallow-hole shrinkage stoping method.

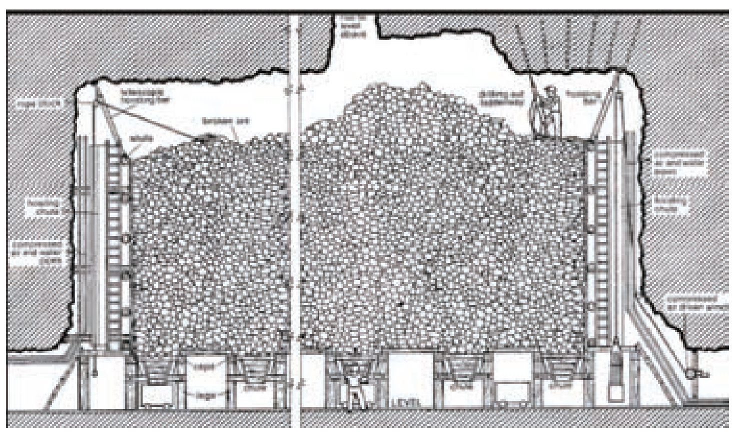

Figure 7-2: Shallow-Hole Shrinkage Stoping

The mining technology contained in the shallow-hole shrinkage stoping method is primarily specified as follows:

The ore existing in the mining area is stoped from the upper layer to the lower layer in sequence while the ore existing in the stope is stoped from the lower layer to the upper layer. The every layer is high as 2m.

– **Preparing and cutting:** Develop drifts along the orebody strike in the haulage roadway at each mining level. Drifts are 5m in spacing and 5-7m long. Develop passenger raises at the two ends of the stope along the dip of the orebody. Develop the stope from bottom to top with the exploration drift as floor.

– **Ore recovery:** YSP-45 drill rig is used to drill holes at angles of 70°-80°. Each sublevel of stoping is about 2m high. The blast hole is drilled as a straight line and remains the interval of 0.8m-1.2m between each other. The explosive is charged manually and ignited by using the non-electrical blasting tube. The secondary breaking process is handled in the stope. Only 1/3 of broken ore is removed through the drifts and the rest 2/3 is to be removed when the stope is completed.

– **Pillar recovery:** Crown pillar is to be recovered by one time drilling and blasting at the completion of the last sublevel; while the rib pillar is to be recovered by one time drilling and blasting at the completion of the stope.

Selective cut and fill mining method is being used in the mine at the moment. Stope has a length of 30~60m and a height of 30m. 4m height bottom pillar and 4m thickness hanging wall are maintained. All the stopes having been prepared are listed in Table 7-2. All of these stopes have not been mined yet.

Table 7-2: Prepared Stopes

Mining Area	**Pit-head**	**Level**	**Stope**			
			ID	**Length**	**Width**	**Height**
				(m)	(m)	(m)
Gezidong	#1 shaft	Level 636m	1085	40	0.5	30
			1088	50	0.4	30
		Level 598m	201	50	0.5	30
			202	60	0.4	30
		Level 557m	301	45	0.8	30
			302	30	0.5	30
Dakuangti	#2 incline		201	50	0.4	30
Shuiquangou	#1 shaft		101	50	0.4	30

In the future mining activities, shallow-hole shrinkage mining method would be used to mine the orebodies more than 1m thickness, while the orebodies less than 1m thickness would be mined through selective cut and fill mining method.

7.4.4 Ventilation System

Gezidong Area

The intake air passes through shaft No. #1 and distributes through three levels. There are blind shafts being used to pass air between the levels. Finally the exhausted air passes to the surface through adit of 687m.

Dakuangti Area

Level 705m of No. #3 incline has been connected with adit of #2. Fresh air passes through No. #3 incline into the underground, exhausted air passes through adit of #2 to the surface.

Level 554m of No. #3 incline has mechanical ventilation being used. In order to resolve the ventilation problems, another two levels need to be driven between level 705m and level 554m, and then blind shafts can be used as the air return shafts between levels.

Shaft of No. #2 cannot be in ventilation at the moment. In order to resolve this problem, Level 607m of No. #3 incline needs to be driven along the orebody and then connected with level 607m of No. #2 incline.

There is a ventilation shaft not far away from the portal of No. #2 adit. In order to resolve the ventilation problems in the stopes, another ventilation shaft, which is more than 20m deep, needs to be driven to the surface in the deep of the adit.

Machegou Area

Fresh air passes through adit of No. #1 into the underground, exhausted air passes through the adit of No. #2 to the surface. When drive along the orebodies, mechanical ventilation is used. Adit of No. #2 has been connected at level 705m of incline of No. #3 of Dakuangti area.

Shuiquangou Area

Fresh air passes through shaft No. #1 into the underground, exhausted air passes through shaft No. #2 to the surface. Mechanical ventilation is used in shaft No. #3, no air return shaft is available.

7.4.5 Drainage System

In the Gezidong area, gravitational groundwater from each levels flows to the level 557m, then multistage pumps are used to drain the water out to surface.

At the Dakuangti area, multistage pumps are used to drain the water out to surface for both No. #2 incline and No. #3 decline.

In the Shuiquangou area, one submersible pump is used to drain the water out to the surface for each shaft of Nos. #1, #2 and #3.

In the Machegou area, gravitational drainage and submersible pumps are used to drain the groundwater.

7.5 Issues and Suggestions

Dongduimiangou gold mine possesses a very promising deposit with a good potential, however, the geological work so far has only delineated a limited resource has been. The company has a great ambition on the exploration and development of the project; however, SRK noted a few issues needed to be paid attention to before any massive development of the mine:

- High category resources used for the mine design at current stage are limited and therefore the targeted expansion to 1000t/d at this stage is relatively optimistic;
- Except for orebody No. 1#, all the other orebodies have only resource of 333 or 334 category. The company should focus on further geological exploration to upgrade the geological resource;
- The development of the mine was started before the completion of the mine design, which may cause reconstruction in a later stage or impose safety risks;
- Currently, professionals for mining and geology are not sufficient for future exploration and operation.

Based on the preceding issues, SRK suggests:

- The company should develop and execute a detailed geological exploration plan and commission a professional geological company on the exploration;
- The company should conduct engineering geology and hydrogeological exploration at the same time of mineral exploration;
- The current resources can support 100t/d production for 11 years; however, production expansion needs to be proceeded progressively with the supporting of increased resources;
- The mine has limited choice on the selection of mining method restricted by the orebody condition; however, mining method trial and testing to define the most optimistic mining parameters are still important for the production;
- The company should establish its professional recruitment and training program to reserve talents for the future production.

8 ORE PROCESSING ASSESSMENT

8.1 Mineralogical Characters

8.1.1 Elemental Composition of Ore

Table 8-1 shows the chemical analysis results of two groups of ore samples. The first group of samples 1 to 3 are mainly from ore body No. 1 with some from other ore bodies, collected from the exploration tunnels and trenches. They represent the samples for cyanide leaching test. The second group, the sample 4 was taken from shafts Nos. 1 to 3 of Majiagou and Shuiquangou areas for flotation test. The two group samples are different in sulfur contents.

Table 8-1: Assay Results of Ore Samples*

Element	Au	Ag	Cu	Pb	Zn	S	As	Sb	Fe	CaO	MgO	Al2O3	SiO2
Sample 1	6.26	15.26	0.12	0.085	0.13	0.23	0.025	0.01					
Sample 2	6.30	16.13	0.18	0.06	0.17	0.56	0.021	0.02					
Sample 3	4.38	20.31	0.03	0.06	0.05	0.95	0.023	0.01					
Sample 4	5.00	9.87	0.085	0.35	0.54	6.09	0.07	0.017	4.62	3.84	4.95	10.96	57.94

* The units: g/t for Au and Ag, % for the rest of elements

8.1.2 Mineral Composition of Ore

Table 8-2 shows the mineral composition of ore sample 4. There are no details for cyanide leaching test ore samples, but the difference between the two groups of samples may be neglected.

Table 8-2: Mineral Composition of Ore

Metal Mineral		Nonmetal Mineral	
Mineral	Content(%)	Mineral	Content(%)
Pyrite	9.37	Quartz	56.64
Sphalerite	0.80	Feldspar	
Chalcopyrite	0.25	Sericite	15.43
Galena	0.40	Chlorite	
Arsenopyrite	Minim	Carbonates	12.31
Bournonite	Minim	Kaolin	2.61
Limonite	0.33	others	1.86
Sub Total	11.15	Sub Total	88.85

8.1.3 Ore Characters

The ore type is categorized as gold-bearing quartz vein. The useful elements are gold and silver occurring as natural gold, natural silver, electrum and proustite. Other minerals are worthless due to their low contents and cannot be economically recovered. Table 8-3 shows the gold size survey result. It indicates that the gold dissemination in the ore is un-uniform.

Table 8-3: Grain Sizes of Gold

Size (mm)	>0.3	0.3-0.074	0.074-0.053	0.053-0.037	0.037-0.001	<0.001
Content (%)	15.26	7.85	13.28	22.73	28.83	12.05
Accum Total (%)	15.26	23.11	36.39	59.12	87.95	100.00

Gold grain shapes and occurring status are shown in Table 8-4 and Table 8-5, respectively. The main gold's carrier mineral is pyrite, other sulfide minerals like galena, chalcopyrite are the sub-carriers. Some gold grains are also beared in gangue minerals. The survey results indicate that gold is easy liberated and processed by flotation or by cyanide leaching.

Table 8-4: Shape of Gold Grain

The boundary is tidy and smooth		**The boundary is tidy and smooth**		**Untidy Boundary**	
Shape	Content (%)	Shape	Content (%)	Shape	Content (%)
Spherical	16.42	Granular	17.34	Granular with sharp angle	10.35
Kernel-like	10.85	Long granular	12.97	Branch-like	2.81
Laminae-like	15.01	Flake-like	14.25		
Sub-total	42.28		44.56		13.16

Table 8-5: State of Gold Borne

Gold exist category	Relation with carrier mineral	Content (%)	Sub-total (%)
Enwraped	In gangue	9.05	52.34
	In sulfide	43.29	
Inter grains	Between gangues	27.64	38.65
	Between pyrite and gangues	7.75	
	Among pyrite grains	3.26	
In fissures	In gangue fissures	7.70	9.01
	In pyrite fissures	1.31	

8.2 Processing Tests

8.2.1 Cyanidation Inlet/Outlet Test

In November 2007, Tianjin Institute of Geological Survey conducted the cyanidation leaching test on the ore samples, of which consist of mainly ore body No. 1 taken from tunnels and Nos 1, 2, 3, and 4 ore bodies collected from exploration trenches and mixed with 8% of the altered wall rocks. The all mixed samples have the gold content of 5.02g/t and silver content of 14.56g/t. The recovery rates of gold and silver are 96.77% and 71.02%, respectively (Table 8-6). The test result indicates that the recovery rates of ore type at Dongduimiangou gold mine are good. SRK has not sighted the test report and thus fails to know about the specific leaching conditions such as the grinding fineness, the leaching time and the sodium cyanide density.

Table 8-6: Result of Cyanide Leaching Test

Items	Unit	Au	Ag
Grade of ore	g/t	5.02	14.56
Grade of residue	g/t	0.16	4.22
Leaching recovery	%	96.77	71.01

8.2.2 Floatation Test

Changchun Gold Research Institute conducted the floatation test on the ore samples in December 2009. The samples are specified as follows:

- No. 1# Vertical shaft: 16.4%
- No. 2# and No. 3# Vertical shafts: 24.6%
- Majiagou: 24.6%
- Shuiquangou: 16.4%
- Surrounding rock: 18%
- Grade of gold in designed sample 5.00g/t.

The closed-circuit test is conducted under the condition of the optimal test. The flowsheet and result are respectively shown in Figure 8-1 and Table 8-7. Since the ore contains coarse grain-sized gold, this part of gold is recovered by gravity table concentration equipment before flotation. The gold grade of concentration through the gravity table process can reach 3,877g/t, and the overall gold grade of concentration is 58.19g/t with gold recovery rate of 91.17%. The silver grade of concentration obtained through flotation process is 64.55g/t. The agents used in the test are simply including butyl xanthate and the aerofloat sodium used as the collecting agent and the pine camphor oil used as the foaming agent are 100g/t, 50g/t, and 50g/t, respectively.

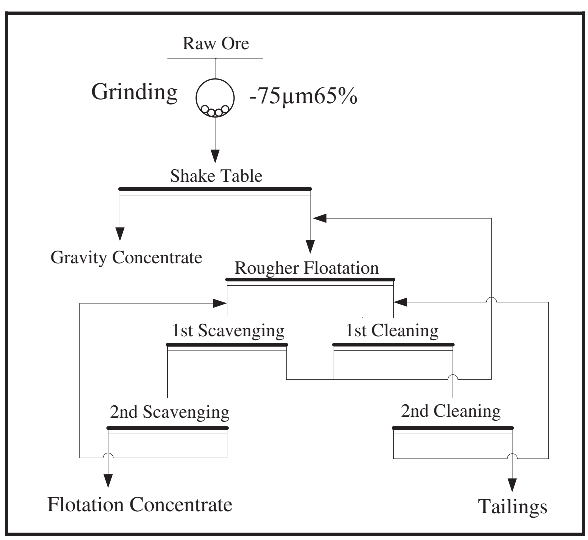

Figure 8-1: Flowsheet of Flotation Test

Table 8-7: Result of Flotation Test

Product	Yield (%)	Gold Grade (g/t)	Gold Recovery (%)
Gravity Concentrate	0.03	3877.30	23.21
Flotation Concentrate	7.82	43.54	67.96
Total Concentrate	7.85	58.19	91.17
Tailings	92.15	0.48	8.83
Feed Ore	100.00	5.01	100.00

8.3 Extractability of Ore and Processing Technology

8.3.1 Extractability

The research result of the ore property indicates that the gold can be easily separated from ore in the milling process. The processing test result shows that the gold in ore can be recovered easily by the cyanidation leaching method. The gold and silver leaching rates reach 96.77% and 71% respectively. The gold and silver can be extracted by using the gravity + floatation concentration method as well. The product is gold concentration with gold grade of about 50g/t. The gold recovery rate is 91.17%.

Therefore, both methods of the cyanidation leach and the flotation method can be used as the ore processing methods.

8.3.2 Cyanide Leaching-Carbon in Pulp (CIP)

Based on the cyanidation leaching test result specified in “Plan for Exploitation of Mineral Resources Dongduimiangou Gold Ore and its Utilization” conducted in Dec. 2008 by Inner Mongolia Yuanbo Engineering Design & Consulting Co., Ltd., the CIP technology is adopted (Figure 8-2). The crude gold ingot and silver ingot through the following 5 processing steps:

- Crushing
- Grinding
- Cyanidation leaching and active carbon adsorption
- Gold desorption from carbon carrying gold-Electrolysis
- Smelting of gold and silver

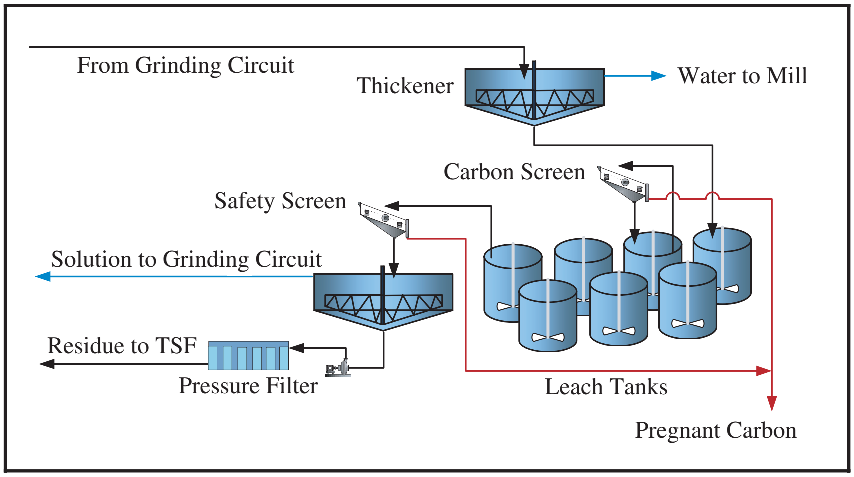

Figure 8-2: Carbon in Pulp (CIP) Flow Chart

The leached tailings are filtered to form filter cakes under pressure by the pressure filter. The filter liquor is recycled for re-use and the filter cake is transferred to the tailings reservoir. The technical criteria are designed as follows:

- Production capacity: 100t/d,
- Fineness of grinding: 84%-86% less than 75μm,
- Grade of raw ore: Au 5.87g/t, Ag 14.34g/t,
- Leaching rate: Au 95.00%, Ag 71.00%,
- Adsorption rate: Au 99.00%,
- Desorption rate: Au 99.00%,
- Electrolysis rate: Au 99.50%,
- Smelting recovery rate: Au 99.50%,
- Total recovery rate: Au 92.18%, Ag 68.89%

8.3.3 Gravity and Flotation

According to the result of flotation test specified in "Feasibility Study on Dongduimiangou Gold Ore" prepared in Dec. 2009 by Changchun Design Institute, the gold and the silver are recovered from the ore by the gravity + flotation concentration method as shown in Figure 8-3. The gold concentrate can be yielded through the following 4 steps:

- Crushing
- Grinding and gravity concentration: Knelson concentrator can be applied to the grinding and classifying circuit so as to reclaim the coarse gold.
- Floatation
- Ore concentrate concentration and filtration

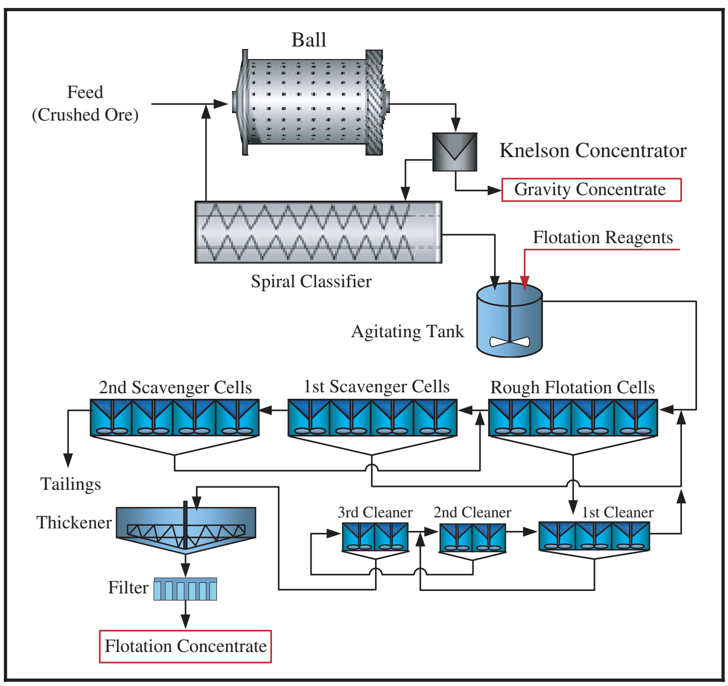

Figure 8-3: Designed Flotation Flow Chart

The flotation tailings are pumped in the tailings dam. The technical criteria are designed as follows:

- Production capability: 1000t/d
- Fineness of grinding: 65% less than 75µm
- Grade of raw ore: Au 7.11g/t
- Grade of gravity concentrate: Au 3894.00g/t
- Grade of floatation concentrate: Au 56g/t
- Gravity recovery rate: Au 23.00%
- Floatation recovery rate: Au 69.70%
- Total recovery rate: Au 92.70%

After washing manually, the gravity concentrate can be smelt to crude gold with recovery rate of 99.5%. There is no technical index for silver.

8.4 Production Status

The small-scale flotation mill has a processing capacity of 50t/d to handle the exploration byproduction ore. There is no production record because the mill is not regularly operated. SRK was informed that the gold grades of concentrate are about 40-50g/t and the gold recovery rate is about 90%. Aohanqi Xinruien plans to build a new concentrator to replace the old one. The new plant will stand on the hillside behind the old concentrator. The ground area to occupy the new plant is preliminarily levelled off. The site where the new plant will stand and current concentrator are shown in Figure 8-4.

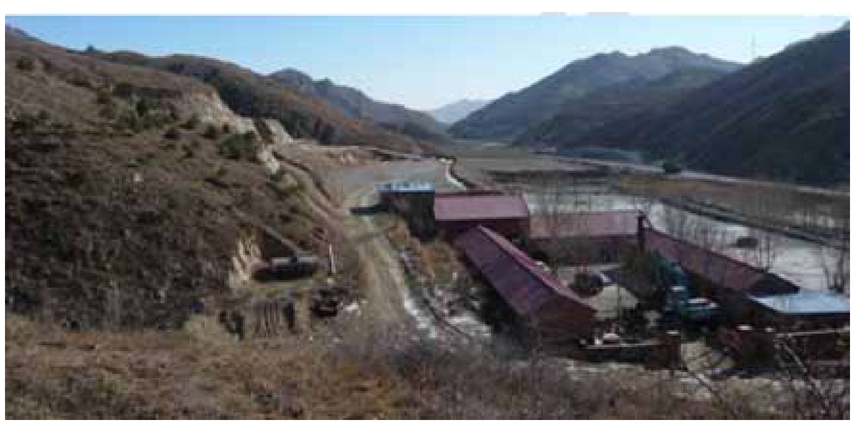

Figure 8-4: Overview of Current Processing Plant and New Concentrator Site

8.5 Tailings Storage Facility

There are two valleys, approximately 600m southeast of the designed new processing plant. Both can be used as tailings storage facilities ("TSF").

One of which was used as the TSF for a small iron ore processing plant. Its storage capacity is estimated to be 0.7 million cubic meters (m^3). SRK finds that the quantity of the tailings stored is about 2000t, but there is no design for the tailing dam.

8.6 Conclusions and Recommendations

8.6.1 Processing Technology

CIP technology has more advantages than flotation method. For the CIP technology, the gold and silver recovery rates can reach 96.77% and 71%, respectively. The concentrate can produce both gold and the silver ingot products, which have the largely economic advantages. Whereas for the flotation technology, the gold recovery rate is about 91.17% and the gold grade of concentrate is relatively low at 58.19g/t.

SRK recommends that the CIP technology should be adopted and add one Knelson Concentrator and one shake table to pre-recover coarse size gold.

8.6.2 Processing Test

Although the gold/silver in ore at the Dongduimiangou gold mine can be easily separated and recovered, the nature of samples used in the cyanidation leaching test and samples used in the floatation test are different. The two groups of samples are lack of representativeness. There is no cyanidation leaching test report sighted and there is no silver analysis for the flotation test report.

SRK recommends that the cyanidation leaching test should be applied to the different kinds of ore and that both gold and silver should be assayed as well in order to know the cyanidation leaching effect on different types of ore in the whole ore deposit.

8.6.3 Production Scale

According to the productive capacity specified in "Plan for Exploitation of Mineral Resources and its Utilization", the processing capacity is 100t/d by using CIP technology, while the capacity is 1000t/d if adopting the flotation technology according to the production capacity specified in "Feasibility Study". Therefore, there is a big gap of capacities between the two methods. SRK believes that the first processing capacity is too small.

8.6.4 Tailings Storage Facility

Because both industrial water and living water are sourced from underground water, at the time when the tailings dam is designed and built, the strict measures against the seepage must be taken to prevent the underground water from being polluted by the production waste water, particularly by using CIP technology. SRK agrees the tailings stockpiling method designed in "Plan for Exploitation of Mineral Resources and its Utilization". This technology will recycle the waste water which will not only save water but also prevent the environmental pollution.

9 WORKFORCE

9.1 Workforce Numbers

According to the "Feasibility Study on Dongduimiangou Gold Ore" prepared in by Changchun Design Institute in December 2009, the required workforce numbers based on the mining and processing capacity of 1, 000t/d for the Dongduimiangou gold mine mining department and ore processing plant are shown in Table 9-1. SRK believes the workforce number can meet the operating capacity.

Table 9-1: Workforce Numbers

Department	Numbers
Company headquarters	**61**
General & duty manager	5
Chief engineer	1
Chief accountant	1
Others	54
Mining department	**448**
Management	5
Technology	22
Mining and transport workers	421
Metallurgical processing plant	**86**
Management	3
Technology	6
General workers	77
Workshop & Mainaince	**15**
Management	3
General workers	12
Sale Department	**12**
Management	2
General workers	10
Safety Department	**12**
Full-time	11
Others	1
Total	**634**

9.2 Assessment of Workforce

Based on the laws of Chinese National Ministry of Labour and the work contract regulations of Hebei Bureau of Work and Social Security, Company staff and employees will sign work contracts. To ensure a relatively stable workforce, the Company will transact endowment, medical, work injury, unemployment and bearing insurance plus housing accumulation funds for employees.

10 OCCUPATIONAL HEALTH AND SAFETY

10.1 Safety Approvals and Permits

The **Approval for Safety Facility Check and Acceptance of Aohanqi Xinruien Dongduimiangou Gold Mine** was issued by the Chinese National Safety Production and Quality Adinistration Bureau on 17 May 2008. Inner Mongolia Safety Production Administration Bureau on 28 December 2008. This safety approval covers the mine, concentrator and TSF.

The Inner Mongolia Safety Production Administration Bureau issued one Safety Production Permit (Permit No. 279) for the Dongduimiangou Gold Project on 28 December 2008.

10.2 Safety Procedures and Training

According to the Business Plan, Aohanqi Xinruien will have a Safety Monitoring Division which has 11 full-time employees. It also includes three workshops having a total of 12 people responsible for the safety of mining, processing plants and tailing dams. Each workshop has a safety committee and written safety goals are required. A monthly, seasonal, half-year, and an annual review of safety responsibilities for each workshop are conducted by the offices from the Safety Monitoring Division.

According to the new employees experience level and work field, they must accepted half-day, one-day, or two-day safety training and checking required certificate or license (e.g., the use of explosives) before going to work. For specific workforces such as and before the start of each shift, employees hold regular safety meetings of about 15 minutes duration with the previous shift workers in their work area. The previous shift workers are required to complete a written and signed safety record to advise the incoming shift about the prevailing work conditions.

11 OPERATING AND CAPITAL COSTS

11.1 Operating Costs

According to the Business Plan and Feasibility Study provided by the Company, the designed operating costs analysis showing the costs for mining as RMB81 Yuan per tonne ore and processing RMB77 Yuan per tonne ore which makes total operating costs of RMB158 Yuan per tonne ore mined and treated. Consumption of reagents and other materials in the costs are based on prices obtained by suppliers in China. Information regarding the salary scales was used to calculate labour costs. Power consumption and hence costs were based on the local standards of charges.

11.1.1Mining Operation Cost

Mining is conducting by decline and shaft and underground mining techniques utilizing the services of mining contractors. The mining and tunnelling (development) contractors are responsible for providing the necessary production and support equipment as well as all direct labour and front line supervision. The Company will provide power and water supplies for the mining operations carried out by contractors. The mining contracts are signed based on the amount of ore mined and its quality control such as the average grade as well as the loss rate and dilution rate. Tunnelling (development) contracts are signed based on the amount of meters of a certain diameter tunnel that the contractor is required to complete. Table 11-1 shows the mining costs at Dongduimiangou gold mine.

Table 11-1: Mining Costs at Dongduimiangou Mine

Section	Cost (RMB/t)
Labour	10.0
Consumables	13.5
Power	2.5
Tunneling costs sharing	45.0
Mine site geotechnical works	7.5
Maintenance and Administration	2.5
Total	81.0

11.1.2Processing Costs

The processing costs are calculated based on the mine and plant operating data. The major costs for processing include labour, consumables, and power maintenance (see Table 11-1for details).

Table 11-2: Mineral Processing Costs at Dongduimiangou Mine

Section	Cost (RMB/t)
Labour	7.5
Consumables in total	27
Steel balls	6.5
Reagents	3.5
Power Maintenance	30
Administration	2.5
Total	77

11.2 Capital Costs and Investments

Total investment on the Dongduimiangou gold mine construction designed in the Business Plan and Feasibility Study by Changchun Gold Design Institute is RMB136 million Yuan, which includes the mine development, ore processing plant, tailing storage facility and other supporting facilities (see Table 11-3 for a detail). In SRK's opinion, the proposed capital investments are sufficient and likely to achieve the Company's stated targets.

Table 11-3: Production Capacity and Forecast, 2010 to 2014

Mine/Plant		Construction Period							
Mine, Plant and Other Facilities		**Total**	**1st H 2010**	**2nd H 2010**	**1st H 2011**	**2nd H 2011**	**2012**		
	Mining Development	3060	100	2060					
	Metallurgical Processing Plant	5628	2230	3398					
	Tailings Storage Facility	760	500	260					
	Support Facility	1826	1220	606					
	Others	2326	1450	876					
	Total (Unit: 10,000RMB)	13600	6400	7200					
Mine/Plant		**Production Period**							
Operating Mine		**Unit**	**2nd H 2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
	Capacity	1000t	100	300	300	300	300	300	99.65
	Ore Mined	1000t	100	300	300	300	300	300	99.65
	Au Grade	g/t	9.3						
Metallurgical Processing Plant									
	Capacity	t	100.00	300.00	300.00	300.00	300.00	300.00	99.65
	Concentrate Production	t	15278.57	45835.71	45835.71	45835.71	45835.71	45835.71	15224.79
	Concentrate Grade	g/t	56						
	Recovery Rate	%	92						

12 UTILITIES AND INFRASTRUCTURE

12.1 Road Access/Transportation

The Dongduimiangou gold mine is located approximately 75km northwest of Xinhui County town where Aohanqi Government stands and 85 km south of Chaoyang City. The traffic conditions are good because the area is linked with the roads.

Mining area has a distance of 20km to the Beizifu bus station on 305 national road and has a distance of 85km to the railway station of Chaoyang city, Liaoning province. There is bypass connecting to the Chaoyang railway station. Generally speaking, the roads are convenient.

12.2 Power Supply

Northeast power network provides Jinchanggouliang County with electrical power through two lines of Beipiao-Jinchanggouliang and Xinhui-Jinchanggouliang. Then two branches were separated from Jinchanggouliang to provide electrical power to Erdaogou transformer station and Jintao Corporation transformer station. Finally, these two transformer stations supply electrical power for the mine and receiving the power from the transforming station standing in Hendaohezi Region.

The mine is located 4km northwest of one power substation standing in Erdaogou Area. The supplied power can satisfy the construction and production of the ore area. Based on the information provided, a simplified chart of supplying of electrical power was drawing by SRK. It was presented in Figure 12-1.

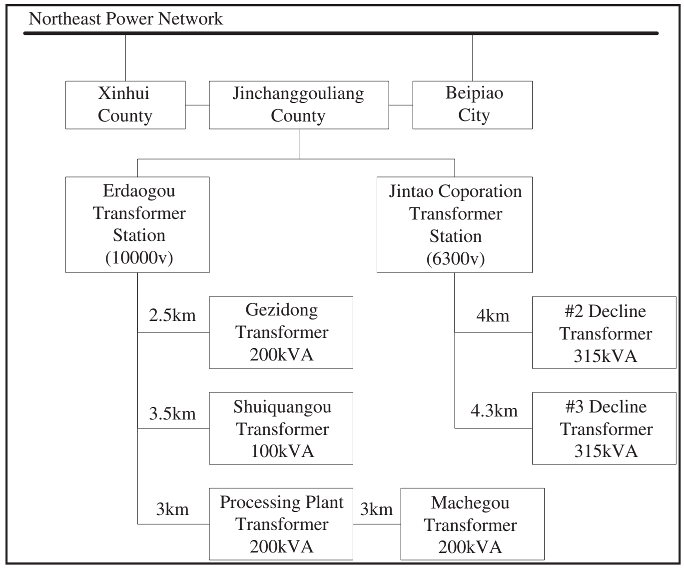

Figure 12-1: Simplified Chart of Electrical Power Supply

12.3 Water supply

Quantity of water used in the mine is little. According to the hydrogeology work in the mining area, it was enough for the pore water of the Quaternary in ravines to provide water to the mine.

Aohanqi Xinruien obtained the water-intaking permit issued by Aohanqi Water Authority. This licensed the mine to getting groundwater from Hui tribe villages, which were located in Jinchanggouliang county, at 20.0km3/a. The expiry date is on Aug. 23, 2011. It can be applied for the extension of the effective term of such permit if it expires. The company can adjust the water consumption as required by the production.

Actually, the annual volume of the water allowed to be used by the permit is a volume of the water obtained underground in Hui tribe villages, which fails to meet the requirement of the actual production. Aohanqi Xinruien will recycle the water drained from shafts.

12.4 Supply of Material and Fuel

The fuel for production can be supplied from Xinhui Town and Chaoyang City. The materials such as beneficiation reagent and iron shots all required for ore production must be bought from Xinhui Town and Chaoyang City because of the locally undeveloped industry. The necessary examination and maintenance capacity must be provided inside the ore area in addition to the increase of the quantity of quick-wear parts in reserve because of the long distance between the location of ore area and the available supplier.

13 ENVIRONMENTAL ASSESSMENT

13.1 Environmental Review Objective

The objective of this environmental due diligence review is to identify and or verify the existing and potential environmental liabilities and risks, and assess any associated proposed remediation measures for the Dongduimiangou Gold Mine Development Project (Dongduimiangou Project) in Aohan District of Chifeng Township, Inner Mongolia. The project is owned by Inner Mongolia Auhanqi Xinrui'en Ou'hanqi Mining Co. Limited (Xinruien Mining).

Presently at site are historic underground workings and surface facilities consisting of a small office/residential building, winch house, Waste Rock Dump (WRD) and access road. No construction or development has yet been commenced for the new Dongduimiangou Project.

13.2 Environmental Review Process, Scope and Standards

The process for the verification of the environmental compliance and conformance for the Dongduimiangou Project comprised a review and inspection of the project's environmental management performance against:

Chinese National environmental regulatory requirements (Appendix III).

World Bank/International Finance Corporation (IFC) environmental standards and guidelines (Appendix IV).

Internationally recognised environmental management practices.

The methodology that was applied for this environmental review of Dongduimiangou Project comprised a combination of document review, site visit and interviews with Company technical representatives. The site visit was undertaken in January, 2010.

13.3 Status of Environmental Approvals and Permits

The Mining Licence for the Dongduimiangou Project Gold Mine (Licence No. C1500002009054110029537) was granted to Xinruien Mining on 31 May 20009 by the Aohan County Bureau of Land and Resource (expiry 31 May 2012). The approved mining method is for underground, with an approved production rate of 30,000 tonnes of ore mined per year.

An Environmental Impact Assessment (EIA) entitled "45,000 tpa Gold Ore Project for Dongduimiangou Gold Mine" was completed 2007 for Xinruien Mining was provided for review. The EIA was approved (No.2008-3) on the 17 January 2008 by the Chifeng City Environmental Protection Bureau (EPB). SRK notes that the EIA has been conducted for a higher production rate than the mining license's approved rate.

The Dongduimiangou Project's Soil and Water Conservation Plan (SWCP) was completed by the Aohan County Water and Soil Conservation Station in October 2007 for Xinrui Mining. The SWCP was approved by the Aohan County Water Management Bureau (No.2007-96) on 10 October 2007.

SRK was provided with copies of 6 Land Use Permits (LUP) for the Dongduimiangou Project facilities sites were provided for review. All LUPs were issued by the Aohan County Land and Resources Bureau in 2006 and 2007.

As Xinruien Mining is yet to begin construction/development work on the Dongduimiangou Project, Water Use Permits, Pollution Discharge Permits and Final Check Acceptances (on environmental protection facilities) are not yet required, but will be required as the project moves into operation.

13.4 Environmental Compliance and Conformance

The significant environmental aspects for the Dongduimiangou Project that are subject to this technical review are associated with the proposed mining activities at the Dongduimiangou Project sites. The environmental technical review identified the following as the most significant potential environmental management liabilities that relate to operation and development of the Dongduimiangou Project:

Surface water management and discharges (i.e. stormwater runoff).

Groundwater management and discharges (i.e. mine dewatering and seepage from the Waste Rock Dump – WRD).

Dust generation from WRDs, TSF, exposed ground and transport activities.

Rehabilitation of the waste rock stockpiles and other disturbed areas.

Storage and handling of hazardous materials.

Waste generation and management (industrial and domestic wastes).

No geochemical characterisation of industrial waste materials (waste rock).

Potential contaminated sites.

Adequate structured closure planning process.

Adequate erosion control measures.

Of the above items, the most significant environmental risks for the Dongduimiangou Project are associated with potential surface, groundwater impacts and dust generation. In addition, storage and handling of hazardous materials/wastes, including fuels and the potential for generating contaminated sites and operational closure liabilities through management of waste rock, tailings, hydrocarbons and general waste also presents high environmental risks. In particular, the Dongduimiangou Project has no structured process in place for undertaking contaminated sites assessment and for broader closure planning. The lack of characterisation of process wastes and the potential for acid rock drainage and metal leaching may also be of concern.

The environmental risks associated with surface and ground water management, waste rock disposal, hazardous materials management and land rehabilitation can be generally managed if Chinese National environmental standards and regulatory requirements are met.

The environmental risks associated with the potential for generating contaminated sites and other site closure liabilities can be effectively managed through the adoption of relevant recognised international industry practices.

13.5 Land Disturbance

The main impact on the surrounding ecological environment is due to disturbance and contamination caused by surface stripping, waste rock and tailings storage, processing plant drainage, processing waste water, explosions, transportation and associated buildings that are erected. If effective measures are not taken to manage and rehabilitate the disturbed areas, the surrounding land can become polluted and the land utilization function will be changed, causing an increase in land desertification, water loss and soil erosion.

The project EIA reports, "*The entire project includes mining area, office area, domestic area, concentration area, tailings storage facility, roads inside the mine area, explosive magazine and temporary waste dump, etc., all of which occupy a certain area of land, varying the land use nature when compared with that before the implementation of the project. The proposed concentrator and tailings storage facility are both in the range of the existing industrial areas, which do not occupy additional land*". The details of the land occupancy for the project as reported in the EIA are shown below in Table 13-1.

Table 13-1: Details of land occupancy by the various facilities of the project

Project contents	Area of land occupied (km^2)	Type of land occupied	Nature of land use
Office and domestic area	1.00		
Mining area	0.051		
The existing tailings storage facility	0.2		
The proposed tailings storage facility	0.23	Grassland of low coverage	Permanent
Roads	0.084		
The existing concentrator	0.049		
The proposed concentrator	0.07		
Explosive magazine	0.016		
Total	1.70		

Therefore, after expansion, the project will occupy a total area of $1.7km^2$, all of which are grassland of low coverage. The entire project area occupies a small space, and does not occupy any farmland and no resettlement is required.

At the time of SRK's site visit the only land disturbance in relation to the project was from historic operations and development work was limited in area, although no estimate of actual area though was provided by Xinruien Mining. No registry documenting areas of actual land disturbance for the Dongduimiangou Project site have been sighted as part of this review apart from the EIA estimates. The extent of this historic disturbance though while small should be surveyed and recorded along with future disturbances from the development of the Dongduimiangou Project.

13.6 Flora and Fauna

One of the most important problems to be resolved in the projects of exploitation of natural resources is the management of the impacts that could be caused to the forests and the vegetation in general. One of these impacts is caused in the process of clearing which reduces the extension of the plants and degenerates into the loss and/or fragmentation of habitats and the loss of biodiversity. In the construction and operation phase of mining; removal of the vegetation cover, trees, shrubs, epiphytes and herbaceous plants are cut and removed, and on occasion also the organic soil layer is removed.

The project EIA states, "*The vegetation type of this region is the forestry pasture vegetation in semi-arid low hill region, and the existing shrubbery vegetation is dominated by lespedeza, spiraein, pediculus melo, rose jaune, Ostryopsis davidiana; herbage includes stipa capillata, Cleistogenes Keng, guinea grass, Lespedeza davurica, Artemisia vestita, etc.; the artificial vegetation includes Chinese pine, wild apricot and sea backthern*". Therefore the EIA concludes, as a result of site investigation, information check and expert consultancy, etc, no important plants protected by the state or the local authority has discovered in and around the project area.

13.7 Waste Rock and Tailings Management

Waste rock that has been generated so far at the Dongduimiangou Project site is from historical mine workings and present mine development work. The amount while small has simply been dumped down the hillside. No Acid Rock Drainage or associated leaching of heavy metals was observed during SRK's site visit although pyrite was observed in the waste rock.

The EIA states, "*The enterprise currently has no specific waste dump site, and no such waste dump is designed for this expansion of the project. Waste rocks produced from mining operation are temporarily stockpiled around the pithead of the stope, which will be used for road building and tailings dam building when stockpiled to a certain quantity. Since these waste rocks are basically a mixture of rock and soil with a large particle size and specific weight, and are basically not subject to disturbance, the quantity of fly dust to be generated and the range of impact are both relatively small*".

The EIA reported, "*After expansion of the enterprise, the existing tailings storage facility cannot meet the production needs of the enterprise. Therefore, as assigned by the enterprise, China Metallurgy and Mining Corporation Anshan Metallurgical Design Institute Co., Ltd. [Design Qualification; Class A Metallurgical Industry (Mining, Concentration)] has designed a new tailings storage facility for the enterprise, for the specific locations of the existing tailings storage facility and the proposed tailings storage facility*".

The EIA concluded, this tailings storage facility will only cover an area of 0.035km2, and the flood volume is relative small. Other than meeting the drainage requirements, the chute cross-section should also meet the flood discharge needs of the TSF area, so that no flood water is built up in the tailings storage facility in the case of 100-year recurrence flood. Therefore, flood regulation is not taken into account.

The EIA also states, "*Under normal operating condition, the tailing is a Category I general industrial solid waste. After a sufficient settlement and clarification, the various indexes of the wastewater in the tailings storage facility can meet the requirements of the relevant discharge standard of the state, and no hazardous substance is found in the clarified water. Therefore, this project will cause no pollution to the ground water quality in the project region*". In SRK's opinion, this assessment has not considered the potential for ARD and associated metals leaching; hence no empirical statement regarding the potential impacts from the WRDs or TSF can be made at this stage.

SRK recommends that a geochemical assessment of the proposed waste rock be undertaken to confirm that the contaminant levels are low and the potential for leaching impacts are low. SRK also recommends topsoil should be stockpiled in piles no more than 2 metres high to ensure the fertility of the soil.

13.8 Water Aspects and Impacts

Groundwater is the water source for all users in the area and the project is within a regional soil and water conservancy zone. There are no substantial surface water bodies in the region surrounding the project sites, so groundwater (recharged via surface infiltration) will be the main water protection target for the project. Groundwater quality in the area is reported to be poor.

The EIA states, "*After expansion of the project, a total of 136.32t of fresh ground water will be drawn off everyday due to concentration water need, domestic water need and unforeseeable water consumption. The annual ground water withdrawal is 40.9kt, and the water recirculation ratio is 80%, meeting the relevant requirements of Class II Criteria of Time-interval II specified in "Integrated Wastewater Discharge Standard" (GB8978-96). Since the ground water withdrawal flow is very small, it is expected that the operation of this project will have very small impact on the ground water. However, the enterprise should engage relevant unit to compile a water resources verification report so as to determine the specific impact of the project operation on the ground water*". SRK was not provided with a Water Resources Verification Report for the Dongduimiangou Project, but was provided with a Water Abstraction Permit for 20k m3/a, which expired in August 2008.

No designs for the proposed industrial site stormwater drainage system or runoff diversions have yet been sighted for the Dongduimiangou Project.

SRK recommends the mine dewater, industrial waste water, plant drainage and sewage production rates are estimated in project designs and assessment and are monitored (under a monitoring programme – as part of an Environmental Management Plan (EMP)) to determine its acceptability for discharge with the Chinese National standard "Comprehensive Emission Standard of Wastewater (GB8978-1996)". SRK also recommends, water recycling and reuse options are assessed for feasibility in project designs and incorporated were possible to reduce new water consumption and waste water discharges for the project.

13.9 Air Emissions

Dust emissions for the Dongduimiangou Project will be from stockpiles, open areas, ore handling and the general movement of vehicles and mobile plant. Proposed dust management measures for these anticipated dust emissions sources have yet to be completed. The project EIA reports that dust control and suppression plans and management measures will be developed. Water sprays at the dust generation source is the main method mentioned.

The EIA reports, *"This project adopts an underground mining method, with drilling and blasting all carried out under the ground, basically having no impact on the atmospheric environment above the ground surface; however, the loading operation on the ground surface might cause fly dust, especially in windy and sandstorm weather, the fly dust produced in surface loading operation will have a major impact on the areas downstream of the operation site. Thus, the water spray in the loading areas will play a critical role in curbing the generation and diffusion of the fly dust. It can be known through an investigation on the site that there is no residential area and other sensitive point within a 2km range around the two mining stopes. Therefore, the impact of fly dust due to mining operation is acceptable"*.

Gas emissions generated by the Dongduimiangou Project are predominately from the operation of fixed and mobile plant and emissions include non-organizational waste gas, explosive waste gas and boiler's flue gas in office district mainly produced by drilling, exploding, loading and transporting in the mining and stockpiling areas. The main pollutants include CO, NO, NO2, smoke and SO2. No detailed assessment of these potential gas emissions has yet been completed.

SRK recommends comprehensive dust suppression and management plans are developed to meet National Standards for in the mine as well as in and around the mine site and associated facilities. SRK recommends a comprehensive analysis of the whole projects estimated emissions be carried out during detailed project feasibility studies.

There is no Chinese National legislative requirement for the project to estimate its Greenhouse Gas emissions or to implement any emissions reductions. As such none of the project environmental assessment documentation reviewed address the issue of Greenhouse Gas emissions. However, energy efficiency and the reduction of Greenhouse Gas emissions are now considered as Chinese National policy directives. In addition, these are also components of IFC environmental requirements and are considered as internationally recognised environmental management practices. Therefore, SRK recommends that consideration be given to developing initiatives to quantify Greenhouse Gas emissions and assess possible emission reduction strategies for the Dongduimiangou Project.

13.10 Noise Emissions

This Dongduimiangou Project adopts underground mining method, and the noise sources due to mining are mostly located under the ground, with only shovelling and loading operations conducted on the ground surface. The EIA states, *"Since there are no noise sensitive points within range of 2km around the two stopes, the impact of mining noises on the environment is insignificant. The noise producing equipment of the ore concentration system will be enclosed in the plant buildings of the concentrator, and the noise level at the plant boundary will meet the requirements of relevant standard. Furthermore, there is also no environment sensitive point around the concentrator, its impact on the environment is also insignificant"*.

The internal transportation distance between the concentrator and the mine pit is relatively short, and there is no such sensitive point as village and school, etc. along the route, the noise due to internal transportation has no impact on the environment. The frequency of external transportation of the enterprise is once in a week, and the transportation route is as such.

SRK found conditions for noise emissions to be well controlled during site visits and considering the remoteness of the project site from any residences, no significant impacts are expected from noise sources other than ore trucking from site.

13.11 Hazardous Materials Management

For the dongduimiangou Project, processing reagents, explosives and hydrocarbons are the only hazardous materials (no cyanide leaching) that will be used at site as described by project designs and documents. Reagents to be used for ore processing include ammonium dibutyl dithiophosphate, butyl xanthate, and No. #2 oil. The flotation reagents are stored in the preparation shop. Except for No. #2 oil, all other flotation reagents are prepared collectively for centralized dosing.

SRK observed the explosives magazines were constructed in line with Chinese requirements in isolated areas. Hydrocarbon storage was observed to be ad-hoc about the project site, not with dedicated areas with secondary containment.

The Dongduimiangou Project will need to develop procedures for hazardous materials management (reagents, hydrocarbons and explosives) and use along with appropriate storage facilities and conditions to comply with National regulations. SRK recommends constructing fuel diesel storage (with adequate bunding – secondary containment) and transfer facilities to contain spillages from entering the environment.

13.12 Waste Management

13.12.1Waste Oil

The Dongduimiangou Project will produce waste oil from the servicing and maintenance of equipment. No annual generation rates and detailed assessment of the storage and handling requirements for this waste oil have yet been completed. The Dongduimiangou Project documents make no mention of waste oil or management measures. Xinruien Mining has not stated what they will do with the waste oil, but should be able to sell it for recycling in line with Chinese directives for recycling and reuse of waste products.

SRK recommends maintenance work is carried out over concreted hardstand areas to minimize the spillage of waste oil to the soil/water environment. Waste oil collected should be stored in containers within secondary containment facilities, before they are sold for recycling or disposed of in line with Chinese National Standards for the disposal of waste hydrocarbons.

13.12.2 Solid Wastes

No annual generation rates and detailed assessment of the disposal of the inert industrial and domestic solid wastes for the Dongduimiangou Project has yet been completed. No uncontrolled rubbish dumping was observed within the current project site area during SRK's site visit.

SRK recommends placing sufficient refuse collection points about site for the collection of refuse prior to disposal. Xinruien Mining will either be able to have rubbish collected by the local county (dependent upon whether the county has such services) or will need to construct their own landfill (which needs permitting) for disposal of refuse generated on site. Scrap iron can be collected and stockpiled in a designated place prior to being sold for recycling in line with Chinese National directives on the reuse/recycling of waste products.

13.12.3 Sewage and Oily Waste Water

No annual generation rates and detailed assessment of the disposal of the sewage and oily waste water for the Dongduimiangou Project has yet been completed. Sewage management is not addressed within the project's EIA although Xinruien Mining stated domestic waste water (sewage and gray water) will be treated and this waste water will then be discharged to a nearby gully, but provided no details as to what type of treatment system this would be.

No information on oily waste water was available at the time of SRK's site visit and the project EIA make no reference to oily waste water impacts or management procedures. SRK recommends the management of oily waste water and sewage be addressed as part of the projects EMP. Xinruien Mining should construct plant washdown collection drains and concreted hardstand areas for vehicle and equipment maintenance that are bunded to collect hydrocarbons for appropriate disposal and separation from water; thereby reducing the source of oily waste water.

13.13 Contaminated Sites Assessment

The assessment, recording and management of contaminated sites within mining or mineral processing operations, is a recognised international industry practice (i.e. forms part of the IFC Guidelines) and in some cases a National regulatory requirement (e.g. an Australian environmental regulatory requirement). The purpose of this process is to minimise the level of site contamination that may be generated throughout a project's operation while also minimising the level and extent of site contamination that will need to be addressed at site closure.

A contaminated site or area can be defined as:

"An area that has substances present at above background concentrations that presents or has the potential to present a risk of harm to human health, the environment or any environmental value".

The process to assess and record the level of contamination basically involves a combination of visual (i.e. suspected contamination observed from spillages/releases) and soil/water/air sampling and testing (i.e. to confirm contaminant levels). Once the level of contamination is defined, the area's location and contamination details are then recorded within a site register.

Remediation/clean up of contamination areas involves the collection and removal of the contaminated materials for treatment and appropriate disposal, or in some cases the in-situ treatment of the contaminated (e.g. use of bioremediation absorbents on hydrocarbon spillage).

The other key component to the management of contaminated areas is to also remove or remedy the source of the contamination (e.g. place hydrocarbon storage and handling within secondary containment).

No contaminated sites assessment program has at this stage been developed for the Dongduimiangou Project that covers the above mentioned components. SRK recommends that a contaminated sites assessment and management process be developed for the Dongduimiangou Project.

13.14 Environmental Management Plan

The purpose of an operational Environmental Management Plan (EMP) is to direct and coordinate the management of the project's environmental risks. The EMP documents the establishment, resourcing and implementation of the project's environmental management programs. The site environmental performance is monitored and feedback from this monitoring is then utilised to revise and streamline the implementation of the EMP.

The Dongduimiangou Project EIA provides details for a conceptual EMP for the project along with environmental management systems and protocols. The EIA also provides details for a monitoring plan for the Dongduimiangou Project. No operational plan though has at this stage been developed for the Dongduimiangou Project that covers the above mentioned components.

SRK recommends that Xinruien Mining develop and implement an operational EMP for the Dongduimiangou Project in line with Chinese National requirements and recognised international practices as the project moves toward operation.

13.15 Emergency Response Plan

The IFC describes an emergency as 'an unplanned event when a project operation loses control, or could lose control, of a situation that may result in risks to human health, property, or the environment, either within the facility or in the local community'. Emergencies are of a scale that have operational wide impacts, and do not include small scale localised incidents that are covered under operational area specific management measures. Examples of an emergency for a mining/mineral processing project are events such as pit wall collapse, underground mine explosion, the failure of a TSF or a large scale spillage/discharge of hydrocarbons or chemicals.

The recognised international industry practice for managing emergencies is for a project to develop and implement an Emergency Response Plan (ERP). The general elements of an ERP are:

Administration – policy, purpose, distribution, definitions of potential site emergencies and organisational resources (including setting of roles and responsibilities).

Emergency response areas – command centres, medical stations, muster and evacuation points.

Communication systems – both internal and external communications.

Emergency response procedures – work area specific procedures (including area specific training).

Checking and updating – prepare checklists (role and action list and equipment checklist) and undertake regular reviews of the plan.

Business continuity and contingency – options and processes for business recovery from an emergency.

The Dongduimiangou Project EIA provides details for a conceptual ERP for the project along with environmental emergency management systems and protocols. No operational plan though has at this stage been developed for the Dongduimiangou Project that covers the above mentioned components. SRK recommends that Xinruien Mining develop and implement an operational ERP for the Dongduimiangou Project, in line with Chinese requirements and recognised international industry practices.

13.16 Site Closure Planning and Rehabilitation

The Chinese National requirements for mine closure are covered under Article 21 of the *Mineral Resources Law (1996), the Rules for Implementation of the Mineral Resources Law of the People's Republic of China (2006), the Land Use Regulations of the People's Republic of China (1986.6.25) and the Land Rehabilitation Regulation issued by the State Council on October 21, 1988*. In summary these legislative requirements cover the need to conduct land rehabilitation, to prepare a site closure report and submit a site closure application for assessment and approval.

The recognised international industry practice for managing site closure is to develop and implement an operational site closure planning process and document this through an operational Closure Plan. This operational closure planning process should include the following components:

Identify all site closure stakeholders (e.g. government, employees, community etc.).

Undertake stakeholder consultation to develop agreed site closure criteria and post operational land use.

Maintain records of stakeholder consultation.

Establish a site rehabilitation objective in line with the agreed post operational land use.

Describe/define the site closure liabilities (i.e. determined against agreed closure criteria).

Establish site closure management strategies and cost estimates (i.e. to address/reduce site closure liabilities).

Establish a cost estimate and financial accrual process for site closure.

Describe the post site closure monitoring activities/program (i.e. to demonstrate compliance with the rehabilitation objective/closure criteria).

While the above site closure planning process is not specified within the Chinese National requirements for mine closure, the implementation of this process for a Chinese mining project will:

Facilitate achieving compliance with these Chinese National legislative requirements; and Demonstrates conformance to a recognised international industry management practice.

There is currently no operational closure planning process in place for the Dongduimiangou Project that covers the above components. SRK recommends that an operational closure planning process is developed and implemented for the Dongduimiangou Project in line with Chinese National legislative requirements and incorporates recognised international industry practices.

13.17 Evaluation of Environmental Risks

The sources of inherent environmental risk are project activities that may result in potential environmental impacts. These project activities have been previously described within this report.

In summary the most significant environmental risks for the development of the Dongduimiangou Project, currently identified as part of the project assessment, are:

- Surface water management and discharges (i.e. stormwater runoff).
- Groundwater management and discharges (i.e. mine dewatering and seepage from the Waste Rock Dump – WRD).
- Dust generation from WRDs, TSF, exposed ground and transport activities.
- Rehabilitation of the waste rock stockpiles and other disturbed areas.
- Storage and handling of hazardous materials.
- Waste generation and management (industrial and domestic wastes).
- No geochemical characterisation of industrial waste materials (waste rock).
- Potential contaminated sites.
- Adequate structured closure planning process.
- Adequate erosion control measures.

The environmental risks associated with water management, dust deneration, waste rock and tailings disposal and land rehabilitation can be generally managed if Chinese National environmental standards and regulatory requirements are met.

The environmental risks associated with the potential for generating contaminated sites and other site closure liabilities can be effectively managed through the adoption of relevant recognised international industry practices.

14 SOCIAL ASSESSMENT

14.1 Social and Community Interaction

The Dongduimiangou Project is located in Aohan Qi District of Chifeng Township, Inner Mongolia. The land use for the general surrounding area is predominately agricultural and animal husbandry along with other mining projects. Xinruien Mining has stated that the population of the surrounding area is a mix of Han Chinese, Mongolian and Hui local cultural minority groups. The Xinruien Mining reported to SRK that there are no significant cultural heritage sites, within or surrounding the Dongduimiangou Project site.

A public/community consultation program on the development of the Dongduimiangou Project was completed as part of the Project EIA. The EIA states, *"According to the requirements of "Temporary Method for Public Participation in the Environmental Impact Assessment" (March 18, 2006) issued by the State Environmental Protection Administration, the generation conditions, environmental protection measures and anticipated results of this construction project have been made public as a part of the public participation program for this environmental impact assessment, which were posted in the project area as well as the Hui Ethnic Villages nearby for a fixed period of time"*.

Results of the public participation analysis reported in the EIA, some of the interviewees know something about this project, 75.0% of the interviewees are supportive of the project, and nobody hold an objection attitude; 57.14% of the interviewees think that the construction of the project can push forward the local economic development, and 42.86% of them think the project will add to the local job opportunities.

In the survey of the local environment problems, 35.71% of the interviewees are very satisfied with the existing local environment, 21.43% of them think the local environment is just so so, 14.29% of the public express their satisfaction with the local environmental quality, and 28.57% of them express that they don't care about it; 7.14% of the interviewees think the main local environmental problem is noise pollution, and 10.71% of them think air pollution and water environment pollution are the environmental problems, some 46.43% of the public think the damage to the ecosystem is a problem; with regard to the impact of the construction of the project on the local environmental quality, the major concern of the public is the damage to the ecosystem, accounting for 53.57% of the total interviewees. The environmental problems of public concern basically reflect the environmental pollution characteristics of this project.

14.2 Relationship with Local Government

The main administrative body for the Dongduimiangou Project is the Aohan Qi District of the Chifeng City Township jurisdiction. Xinruien Mining reported, the relationship with the administering government was good and positive effects to the surrounding local communities will be mainly direct employment of local contractors and use of local suppliers/service providers where practical. No non-compliance notices, public complaints and or other notices of breach of environmental conditions for the Dongduimiangou Project have been sighted as part of this review.

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APPENDICES

Appendix I: Dongduimiangou Mining Licence

Appendix II: Chinese Resource and Reserve Standards

Categorization of Mineral Resources and Ore Reserves

The system for the categorisation of mineral resources and ore reserves in China is in a period of transition which commenced in 1999. The traditional system, which is derived from the former Soviet system, uses five categories based on decreasing levels of geological confidence – Categories A, B, C, D and E. The new system (Rule 66) promulgated by the Ministry of Land and Resources (MLR) in 1999 uses three-dimensional matrices, based on economic, feasibility/mine design and geological degrees of confidence. These are categorised by a three number code of the form "123". This new system is derived from the UN Framework Classification proposed for international use. All new projects in China must comply with the new system, however, estimates and feasibility studies carried out before 1999 will have used the old system.

Wherever possible, the Chinese Resource and Reserve estimates have been reassigned by SRK to categories similar to those used by the JORC Code to standardise categorisation. Although similar terms have been used, SRK does not mean to imply that in their present format they are necessarily classified as 'Mineral Resources' as defined by the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code").

Definition of the new Chinese resource and reserve category scheme and a broad comparison guide between the Chinese classification scheme and the JORC Code is presented in the following tables.

JORC Code Resource	Chinese Reserve Category	
	Previous	**Current system**
Measured	A, B	111, 111b, 121, 121b, 2M11, 2M21, 2S11,
Indicated	C	122, 122b, 2M22, 2S22, 332
Inferred	D	333
Non-equivalent	E	334

Definition of the New Chinese Resource and Reserve Category Scheme

Category	Denoted	Comments
Economic	1	Full feasibility study considering economic factors has been conducted
	2	Pre-feasibility to scoping study which generally considers economic factors has been conducted
	3	No pre-feasibility or scoping study conducted to consider economic analysis
Feasibility	1	Further analysis of data collected in "2" by an external technical department
	2	More detailed feasibility work including more trenches, tunnels, drilling, detailed mapping
	3	Preliminary evaluation of feasibility with some mapping and trenches
Geologically controlled	1	Strong geological control
	2	Moderate geological control via closely-spaced data points (e.g. small-scale mapping)
	3	Minor work which is projected throughout the area
	4	Review stage

Relationship between JORC Code and the Chinese Reserves System

In China, the methods used to estimate the resources and reserves are generally prescribed by the relevant Government authority, and are based on the level of knowledge for that particular geological style of deposit. The parameters and computational methods prescribed by the relevant authority include cut-off grades, minimum thickness of mineralisation, maximum thickness of internal waste, and average minimum 'industrial' or 'economic' grades required. The resource classification categories are assigned largely on the basis of the spacing of sampling, trenching, underground tunnels and drill holes.

In the pre-1999 system, Category A generally included the highest level of detail possible, such as grade control information. However, the content of each category B, C and D may vary from deposit to deposit in China, and therefore must be carefully reviewed before assigning to an equivalent "JORC Code type" category. The traditional Categories B, C and D are broadly equivalent to the 'Measured', 'Indicated', and 'Inferred' categories that are provided by the JORC Code and USBM/USGS systems used widely elsewhere in the world. In the JORC Code system the 'Measured Resource' category has the most confidence and the 'Inferred' category has the least confidence, based on the increasing levels of geological knowledge and continuity of mineralisation.

In the new Chinese Category Scheme, as shown in the following table, the three numbers refer to economic, feasibility/mine design and geological degrees of confidence.

Chinese Classification Scheme Comparison to JORC

Old Chinese Classification		A & B		C			D	E & F
New Chinese Classification								
"E" Economic Evaluation (100)	Designed mining loss accounted	Recoverable Reserve (111)	Probable Recoverable Reserve (121)		Probable Recoverable Reserve (122)			
	Designed mining loss not accounted (b)	Basic Reserve (111b)	Basic Reserve (121b)		Basic Reserve (122b)			
Marginal Economic (2M00)		Basic Reserve (2M11)	Basic Reserve (2M21)		Basic Reserve (2M22)			
Sub-Economic (2S00)		Resource (2S11)	Resource (2S21)		Resource (2S22)			
Intrinsically Economic (300)		–	–	Resource (331)		Resource (332)	Resource (333)	Resource (334)
"F" Feasibility Evaluation		Feasibility (010)	Pre-Feasibility (020)	Scoping (030)	Pre-Feasibility (020)	Scoping (030)	Scoping (030)	Scoping (030)
"G" Geological Evaluation		Measured (001)			Indicated (002)		Inferred (003)	Predicted (004)
JORC							*Unclassified or Exploration Potential*	
					Inferred			
			Probable Reserve or Indicated Resource					
		Proved/Probable Reserve or Measured Resource						

Appendix III: Chinese Environmental Legislative Background

The Chinese National *Mineral Resources Law (1996), Rules for Implementation of the Mineral Resources Law of the People's Republic of China (2006)* and *Environmental Protection Law (1989)* provide the main legislative framework for the regulation and administration of mining projects within China. The *Environmental Protection Law (1989)* provides the main legislative framework for the regulation and administration of mining projects environmental impacts.

The following articles of the *Mineral Resources Law (1996)* summarise the specific provisions in relation to environmental protection:

- ***Article 15 Qualification & Approval***

  Anyone who wishes to establish a mining enterprise must meet the qualifications prescribed by the State, and the department in charge of examination and approval shall, in accordance with law and relevant State regulations examine the enterprise's mining area, its mining design or mining plan, production and technological conditions and safety and environmental protection measures. Only those that pass the examination shall be granted approval.

- ***Article 21 Closure Requirements***

  If a mine is to be closed down, a report must be prepared with information about the mining operations, hidden dangers, land reclamation and utilisation, and environmental protection, and an application for examination and approval must be filed in accordance with relevant State regulations.

- ***Article 32 Environmental Protection Obligations of Mining License Holders***

  In mining mineral resources, a mining enterprise or individual must observe the legal provisions on environmental protection to prevent pollution of the environment. In mining mineral resources, a mining enterprise or individual must economise on the use of land. In case cultivated land, grassland or forest land is damaged due to mining, the mining enterprise concerned shall take measures to utilize the land affected, such as by reclamation, tree and grass planting, as appropriate to the local conditions. Anyone who, in mining mineral resources, causes losses to the production and wellbeing of other persons shall be liable for compensation and shall adopt necessary remedial measures.

The following articles of the *Environmental Protection Law (1989)* summarise the specific provisions for environmental protection in relation to mining:

- ***Article 13 Environmental Protection***

  Units constructing projects that cause pollution to the environment must observe the state provisions concerning environmental protection for such construction projects. The environmental impact statement on a construction project must assess the pollution the project is likely to produce and its impact on the environment and stipulate the preventive and curative measures; the statement shall, after initial examination by the authorities in charge of the construction project, be submitted by specified procedure to the competent department of environmental protection administration for approval. The department of planning shall not ratify the design plan descriptions of the construction project until after the environmental impact statement on the construction project is approved.

- ***Article 19 Statement of requirement for Environmental Protection***

Measures must be taken to protect the ecological environment while natural resources are being developed or utilised.

- ***Article 24 Responsibility for Environmental Protection***

Units that cause environmental pollution and other public hazards shall incorporate the work of environmental protection into their plans and establish a responsibility system for environmental protection, and must adopt effective measures to prevent and control the pollution and harms caused to the environment by waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

- ***Article 26 Pollution Prevention & Control***

Installations for the prevention and control of pollution at a construction project must be designed, built and commissioned together with the principal part of the project. No permission shall be given for a construction project to be commissioned or used, until its installations for the prevention and control of pollution are examined and considered up to the standard by the competent department of environmental protection administration that examined and approved the environmental impact statement.

- ***Article 27 Report on Pollution Discharge***

Enterprises and institutions discharging pollutants must report to and register with the relevant authorities in accordance with the provisions of the competent department of environmental protection administration under the State Council.

- ***Article 38 Violation Consequences***

An enterprise or institution which violates this Law, thereby causing an environmental pollution accident, shall be fined by the competent department of environmental protection administration or another department invested by law with power to conduct environmental supervision and management in accordance with the consequent damage; in a serious case, the persons responsible shall be subject to administrative sanction by the unit to which they belong or by the competent department of the government.

The following articles of the *Construction Project Environmental Protection Law (1998)* and *Regulations on the Administration of Construction Project Environmental Protection (November 1998)* summarise the specific provisions for undertaking a project's Final Checking and Acceptance process:

- ***Article 20*** *– The construction unit should, upon completion of a construction project, file an application with the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form for acceptance checks on completion of matching construction of environmental protection facilities required for the said construction project.*

  Acceptance checks for completion of construction of environmental protection facilities should be conducted simultaneously with the acceptance checks for completion of construction of the main body project. Where trial production is required for the construction project, the construction unit should, within 3 months starting from the date of the said construction project going into trial production, file an application with the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form for acceptance checks on completion of matching construction of environmental protection facilities required for the said construction project.

- ***Article 21*** *– For construction projects that are built in phases, go into production or are delivered for use in phases, acceptance checks for their corresponding environmental protection facilities should be conducted in phases.*

- ***Article 22*** *– Competent departments of environmental protection administration should, within 30 days starting from the date of receipt of the application for acceptance checks on completion of construction of the environmental protection facilities, complete the acceptance checks.*

- ***Article 23*** *– The said construction project may only formally go into production or be delivered for use when the matching construction of the environmental protection facilities required for the construction project has passed acceptance checks.*

The following article of the *Water & Soil Conservancy Law (1991)* summarises the provisions for the preparation and approval of Water and Soil Conservation Plans:

- ***Article 19*** *– When the construction of a railway, highway or a water project is carried out, a mining or electrical power enterprise or any other large or medium-sized industrial; enterprise is established in a mountainous, hilly or sandstorm area, the environmental impact statement for the project must include a water and soil conservation programme approved by the department of water administration. The water and soil conservation programme shall be drawn up in accordance with the provisions of Article 18 of this Law.*

Where a township collective mining enterprise is to be set up or an individual is to apply for mining, in accordance with the provisions of the Law on Mineral Resources, in a mountainous, hilly or sandstorm area, a water and soil conservation programme approved by the department of water administration under the people's government at or above the county level must be submitted before the application for going through the approving procedures for mining operation is made.

Water and soil conservation facilities in a construction project must be designed, constructed and put into operation simultaneously with the principal part of the project. When a construction project is completed and checked for acceptance, the water and soil conservation facilities shall be checked for acceptance at the same time, with personnel from the department of water administration participating.

The following are other Chinese laws that provide environmental legislative support to the *Minerals Resources Law (1996)* and the *Environmental Protection Law (1989)*:

Environmental Impact Assessment (EIA) Law (2002).

Law on Prevention & Control of Atmospheric Pollution (2000).

Law on Prevention & Control of Noise Pollution (1996).

Law on Prevention & Control of Water Pollution (1996).

Law on Prevention & Control Environmental Pollution by Solid Waste (2002).

Forestry Law (1998).

Water Law (1988).

Water Conservancy Industrial Policy (1997).

Land Administration Law (1999).

Protection of Wildlife Law (1989).

Energy Conservation Law (1998).

Electric Power Law (1995).

Management Regulations of Prevention & Cure of Tailings Pollution (1992).

Management Regulations of Dangerous Chemical Materials (1987).

The relevant environmental protection related Chinese legislation that are required to be utilised for project's design are a combination of the following National design regulations and emissions standards:

Environment Protection Design Regulations of Construction Project (No.002) by Environment Protection Committee of State Council of PRC (1987).

Regulations on the Administration of Construction Project Environmental Protection (1998).

Regulations for Quality Control of Construction Projects (2000).

Regulations for Environmental Monitoring (1983).

Regulations on Nature Reserves (1994).

Regulations on Administration of Chemicals Subject to Supervision & Control (1995).

Regulations on Management of Chemicals Subject to Supervision & Control (1995).

Environment Protection Design Regulations of Metallurgical Industry (YB9066-55).

Comprehensive Emission Standard of Wastewater (GB8978-1996).

Environmental Quality Standard for Surface Water (GB3838-1988).

Environmental Quality Standard for Groundwater (GB/T14848-1993).

Ambient Air Quality Standard (GB3095-1996).

Comprehensive Emission Standard of Atmospheric Pollutants (GB16297-1996).

Emission Standard of Atmospheric Pollutants from Industrial Kiln (GB9078-1996).

Emission Standard of Atmospheric Pollutants from Boiler (GB13271-2001) ---- II – stage coalfired boiler.

Environmental Quality Standard for Soils (GB15618-1995).

Standard of Boundary Noise of Industrial Enterprise (GB12348-90).

Emissions Standard for Pollution from Heavy Industry; Non-Ferrous Metals (GB4913-1985).

Control Standard on PCB's for Wastes (GB13015-1991).

Control Standard on Cyanide for Waste Slugs (GB12502-1990).

Standard for Pollution Control on Hazardous Waste Storage (GB18597-2001).

Identification Standard for Hazardous Wastes-Identification for Extraction Procedure Toxicity (GB5085.3-1996).

Standard of Landfill and Pollution Control of Hazardous Waste (GB 18598-2001).

Appendix IV: World Bank/International Finance Corporation (IFC) Environmental Standards and Guidelines

In seeking to obtain project financing or to list on a stock exchange, these institutions themselves require the proponent to comply with such documents as the Equator Principles and the IFC Performance Standards and Guidelines. This is exemplified by the following preamble from the Equator Principles (July 2006):

Project financing, a method of Funging in which the lender looks primarily to the revenues generated by a single project both as the source of repayment and as security for the exposure, plays an important role in financing development throughout the world. Project financiers may encounter social and environmental issues that are both complex and challenging, particularly with respect to projects in the emerging markets.

The Equator Principles Financial Institutions (EPFIs) have consequently adopted these Principles in order to ensure that the projects we finance are developed in a manner that is socially responsible and reflect sound environmental management practices. By doing so, negative impacts on project affected ecosystems and communities should be avoided where possible, and if these impacts are unavoidable, they should be reduced, mitigated and/or compensated for appropriately. We believe that adoption of and adherence to these Principles offers significant benefits to ourselves, our borrowers and local stakeholders through our borrowers' engagement with locally affected communities. We therefore recognise that our role as financiers affords us opportunities to promote responsible environmental stewardship and socially responsible development. As such, EPFIs will consider reviewing these Principles from time-to-time based on implementation experience, and in order to reflect ongoing learning and emerging good practice.

These Principles are intended to serve as a common baseline and framework for the implementation by each EPFI of its own internal social and environmental policies, procedures and standards related to its project financing activities. We will not provide loans to projects where the borrower will not or is unable to comply with our respective social and environmental policies and procedures that implement the Equator Principles.

The following appendix Table 1 and appendix Table 2 provide a brief summary of the Equator Principles and IFC performance standards respectively. These documents are used by the EPFI's and stock exchanges in their review of social and environmental performance of proponent companies.

Appendix Table 1: Equator Principles

Equator Principles	**Title**	**Key Aspects (Summary)**
1	Review and Categorisation	Categorise such projects based on the magnitude of its potential impacts and risks.
2	Social and Environmental Assessment	Conduct a Social and Environmental Assessment ("Assessment"). The Assessment should also propose mitigation and management measures appropriate to the nature and scale of the proposed project.
3	Applicable Social and Environmental Standards	The Assessment will refer to the applicable IFC Performance Standards, and applicable Industry Specific EHS Guidelines ("EHS Guidelines") and overall compliance with same.
4	Action Plan and Management System	Prepare an Action Plan (AP) which addresses relevant findings of the Assessment. The AP will describe and prioritise actions, mitigation measures, corrective actions and monitoring to manage impacts and risks identified in the Assessment. Maintain a Social and Environmental Management System that addresses management of these impacts, risks, and corrective actions required to comply with host country laws and regulations, and requirements of the applicable Standards and Guidelines, as defined in the AP.
5	Consultation and Disclosure	Consult with project affected communities. Adequately incorporate affected communities' concerns.
6	Grievance Mechanism	Establish a grievance mechanism as part of the management system to receive and resolve concerns about the project by individuals or groups from among project-affected communities. Inform affected communities about the grievance mechanism in the course of the community engagement process and ensure that the mechanism addresses concerns promptly and transparently, and is readily accessible to all segments of the affected communities.

Equator Principles	Title	Key Aspects (Summary)
7	Independent Review	Independent social or environmental expert will review the Assessment, AP and consultation process to assess Equator Principles compliance.
8	Covenants	Covenant in financing documentation: a) to comply with all relevant host country social and environmental laws, regulations and permits; b) to comply with the AP during the construction and operation of the project; c) to provide periodic reports not less than annually, prepared by in-house staff or third party experts, that (i) document compliance with the AP, and (ii) provide compliance with relevant local, state and host country social and environmental laws, regulations and permits; and d) decommission facilities, where applicable and appropriate, in accordance with an agreed decommissioning plan.
9	Independent Monitoring and Reporting	Appoint an independent environmental and/or social expert, or require that the borrower retain qualified and experienced external experts to verify its monitoring information.
10	EPFI Reporting	Each EPFI adopting the Equator Principles commits to report publicly at least annually about its Equator Principles implementation processes and experience, taking into account appropriate confidentiality considerations.

Appendix Table 2: IFC Performance Standards

IFC Performance Standard	Title	Objective (Summary)	Key Aspects (Summary)
1	Social and Environmental Assessment and Management Systems	Social and EIA and improved performance through use of management systems.	Social & Environmental Management System (S&EMS). Social & Environmental Impact Assessment (S&EIA). Risks and impacts. Management Plans. Monitoring. Reporting. Training. Community Consultation
2	Labour and Working Conditions	EEO. Safety and health.	Implement through the S&EMS. HR policy. Working conditions. EEO. Forced and child labour. OH&S.
3	Pollution Prevention and Abatement	Avoid pollution. Reduce emissions.	Prevent pollution. Conserve resources. Energy efficiency. Reduce waste. Hazardous materials. EPR. Greenhouse.
4	Community Health, Safety and Security	Avoid or minimise risks to community.	Implement through the S&EMS. Do risk assessment. Hazardous materials safety. Community exposure. ERP.
5	Land Acquisition and Involuntary Resettlement	Avoid or minimise resettlement. Mitigate adverse social impacts	Implement through the S&EMS. Consultation. Compensation. Resettlement planning. Economic displacement.
6	Biodiversity Conservation and Sustainable Natural Resource Management	Protect and conserve biodiversity	Implement through the S&EMS. Assessment. Habitat. Protected areas. Invasive species.
7	Indigenous Peoples	Respect. Avoid and minimise impacts. Foster good faith	Avoid adverse impacts. Consultation. Development benefits. Impacts to traditional land use. Relocation.
8	Cultural Heritage	Protect cultural heritage	Heritage survey. Site avoidances. Consultation.

SRK REPORT DISTRIBUTION RECORD

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Name/Title	Company	Copy #
Mr Raymond Leung	Sino Prosper Mineral Products Limited	1

Approval Signature:

SRK REVISION RECORDS

Rev No.	Date	Revised By	Revision Details
A	21 March 2010	Dr. Yiefei Jia	Initial report
B	22 March 2010	Dr. Anson Xu	Peer review
C	24 March 2010	Dr Yiefei Jia	Revise and edit report
D	31 March 2010	Dr Yiefei Jia	Revise and edit report

The following is the text of a valuation report prepared for the purpose of incorporation in this circular received from Norton Appraisals Limited, an independent valuer, in connection with the valuation of the Target Mine as at 31 March, 2010.

Norton Appraisals
Registered Professional Surveyors, Valuers & Property Advisers

Unit 01, 21/F, Emperor Group Center,
288 Hennessy Road, Wanchai, Hong Kong
Tel: (852) 2810 7337 Fax: (852) 2810 6337

31 May, 2010

The Board of Directors
Sino Prosper State Gold Resources Holdings Limited
Units 1702-1704, 17/F., Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong

Dear Sirs,

Re: Valuation of a gold mine located at Gouliang Town, Aohanqi, Inner Mongolia Autonomous Region, the People's Republic of China

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In accordance with your instructions for us to carry out an appraisal for the market value of a gold mine located at Gouliang Town, Aohanqi, Inner Mongolia Autonomous Region, the People's Republic of China (hereinafter referred to as the "Target Mine"). It is our understanding that the Target Mine was issued with a mining permit which covers an aggregate mining area of approximately 2.0732 km^2. We confirm that we have conducted site visit, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value for the Target Mine in its existing state as at 31 March, 2010 (hereinafter referred to as the "Date of Appraisal").

This report states the purpose of appraisal and scope of our works, identifies the business appraised, describes the basis and methodology of our appraisal, investigation and analysis, assumptions and limiting conditions, and presents our opinion of value.

1.0 PURPOSE OF APPRAISAL

This report is being prepared solely for the use of the directors and management of Sino Prosper State Gold Resources Holdings Limited (hereinafter referred to as the "Company") for its inclusion in the circular to its shareholder in relation to the proposed acquisition of the Target Mine. In addition, Norton Appraisals Limited (hereinafter referred to as the "Norton Appraisals") acknowledges that this report may be made available to the independent financial adviser of the Company and used by such adviser as one of the sources of information for formulating its advice to the independent directors and shareholders of the Company, and, if requested, regulators.

Norton Appraisals assumes no responsibility whatsoever to any person other than the directors and management of the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely on their own risk.

2.0 SCOPE OF WORK

Our appraisal conclusions are based on the assumptions stated herein and on information, in particular the Technical Review of Dongduimiangou Gold Project in Aohanqi of Inner Mongolia of Autonomous Region, P. R. China on March 2010 prepared by SRK Consulting China Limited (hereinafter referred to as the "Technical Report") – an independent qualified mineral technical adviser specialized in providing resources evaluation to the industry and the business plan provided by the management of the Company and its representatives (hereinafter referred to as the "Management").

In preparing this report, we have had discussions with the Management in relation to the development and prospects of the gold mining and processing industries in the PRC, and the development, operations and other relevant information of the Target Mine. As part of our analysis, we have conducted site visit in respect of the Target Mine and have reviewed such Technical Report, business plan, financial information and other pertinent data concerning the Target Mine provided to us by the Management and have considered such information and data as attainable and reasonable.

We have no reason to believe that any material facts have been withheld from us, however, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

We do not express an opinion as to whether the actual results of the business operation of the Target Mine will approximate those projections in the Technical Report as well as business plan because assumptions regarding future events by their nature are not capable of independent substantiation.

In applying these projections to the appraisal of the market value of the Target Mine, we are making no representation that the business expansion will be successful, or that market growth and penetration will be realized.

3.0 BUSINESS ENTERPRISE

敖漢旗鑫瑞恩礦業有限責任公司 (unofficially translated as "Ao Han Qi Xin Rui En Mineral Industry Co., Limited") (hereinafter referred to as the "Business Enterprise") is a limited liability company established in the PRC and has obtained the mining permit of the Target Mine. The Target Mine is located at Gouliang Town, Aohanqi, Inner Mongolia Autonomous Region, the People's Republic of China (hereinafter referred to as the "PRC" or "China") 中國內蒙古自治區敖漢旗溝梁鎮. Upon completion of the proposed acquisition of the Business Enterprise, the Company will indirectly hold 70% equity interest in the Business Enterprise, which will in turn beneficially own the Target Mine.

3.1 Relevant Legal Document

(i) Enterprise Legal Person Business Licence

The Business Enterprise is subject to a Enterprise Legal Person Business Licence No. 150430000000017企業法人營業執照註冊號150430000000017 for a term commencing from 17 August, 2006 to 3 February, 2012. The main scope of business is confined to gold mine exploitation, selection of gold and sale of mineral products. Its initial registered and paid up capital is RMB1,000,000. The registered address of the Business Enterprise is situated at 內蒙古自治區赤峰市敖漢旗金廠溝梁鎮金廠溝梁村 (unofficially translated as "Jinchanggouliang Village, Jinchanggouliang Town, Aohanqi, Chifeng City, Inner Mongolia Autonomous Region, China").

(ii) Exploration Permit

The Business Enterprise was granted with exploration permit in relation to the Target Mine (hereinafter referred to as the "Exploration Permit") in 2006 and to 31 May 2009.

(iii) Mining Permit

The Business Enterprise was granted with the mining permit 採礦許可證 No. C1500002009054110029537 (hereinafter referred to as the "Mining Permit") issued by 內蒙自治區國土資源廳 (unofficially translated as "Bureau of Land and Resources, Inner Mongolia Autonomous Region") dated 30 May, 2009, for which the holder of Mining Permit was approved for gold mining in the stipulated mining area for a period from 31 May, 2009 to 31 May, 2012. The salient conditions are summarized as follows:

Mining Permit 採礦許可證 No. C1500002009054110029537

Holder of Mining Permit	:	Ao Han Qi Xin Rui En Mineral Industry Co., Limited (the Business Enterprise)
Name of the mine	:	敖漢旗鑫瑞恩礦業有限責任公司東對面溝金礦
Mining area	:	2.0732 km^2
Issue date	:	31 May 2009
Validity period	:	31 May, 2009 to 31 May, 2012

Mineral deposit	:	Gold
Production capacity	:	30,000 tons per annum
Mining method	:	Underground mining

Note: It is our understanding that the Management will obtain a new mining permit upon the completion of a new processing plant. The new processing plant will have a production capacity up to 300,000 tons per annum.

Table 1 : Details of the Mining Permit

Source: Management

4.0 TARGET MINE

The Target Mine is situated at Gouliang Town, Aohanqi, Inner Mongolia Autonomous Region, the PRC with an aggregate mining area of approximately 2.0732 km^2. It is well connected with the downtown of Jinchanggouliang Town and is about 50 km away from the southeast of Aohanqi. The Target Mine is also situated at the boundary between Inner Mongolia and Liaoning Province.

4.1 Location and Climate

The geographical coordinates of the Target Mine are approximately at longitude 120°17'45"E – 120°19'15"E and latitude 41°57'15"N – 41°58'15"N. The location is easily accessible by provincial and county level paved roads.

Climate in the region belongs to mid-temperature continental monsoon type. The weather in the mining site is generally cold with the yearly average temperature ranging from 5.3 degree cetsius (℃) to 7.2 ℃. The temperature in winter could be as low as -30℃ while the highest temperature in summer can reach 37℃. Rainy seasons are from July to August and the remaining time of the year is cold and windy. The detailed vertices coordinates of the mining permit area are shown in the table below.

No.	X	Y
1	4647558.36	40524469.22
2	4647563.26	40525850.92
3	4648488.86	40525847.52
4	4648491.46	40526538.22
5	4647565.86	40526541.72
6	4647564.56	40526196.32
7	4647101.76	40526198.02
8	4647100.46	40525852.52
9	4646699.36	40525845.02
10	4646637.36	40525762.12
11	4646632.76	40524472.42

Table 2 : Coordinates of vertices of the Target Mine

Source: Technical Report

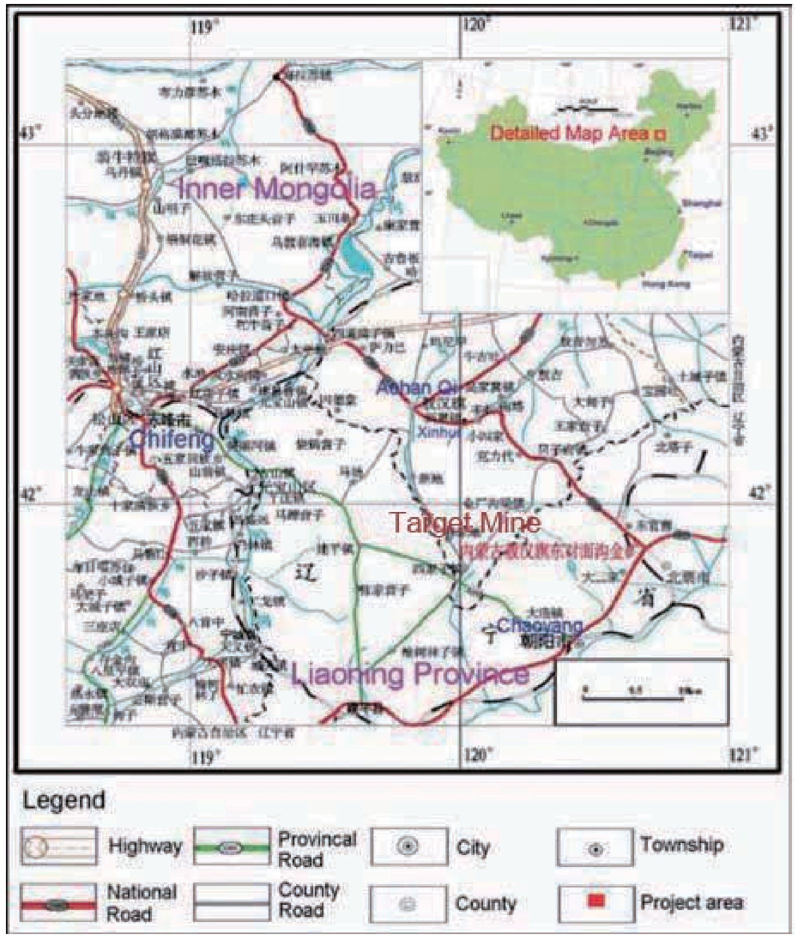

Figure 1: Location of the Target Mine

Source: Technical Report

4.2 Local Economy and Infrastructure

Around the mining area, the majority of the population are Han Chinese and other regional ethnicities include Mongolian, Hui and others. Local economy is largely based on farming, animal stockbreeding, production of handicrafts and other secondary industrial activities.

Infrastructure in the region is well developed with sufficient power, water, communications and electricity supply.

4.3 Geology

The mining area is located at Nuluerhua Mountainous area. Nuluerbu Mountains are nearby the administrative area of Chifeng City, which is situated in the southeastern part of the Inner Mongolia Autonomous Region. The topography is characterized by low hills and mountains, with surface elevations ranging from 550 m to 875 m above sea level. Average elevations is about 100 m to 210 m.

4.4 Mineralogy Characteristics of the ore

There are 4 types of ores in the Target Mine, namely gold-bearing quartz vein with pyrite, gold-bearing quartz vein with pyrite and chalcopyrite and some other minorities such as gold-bearing quartz vein with chlorite and gold-bearing quartz vein with sericite. The majorities of the ore minerals are native gold, pyrite, chalcopyrite, galena, sphalerite, and tetrahedrite. Gold is an important mineral which is hosted in ore sulphide minerals. According to the Technical Report, gold and silver are utilizable benefit elements. The only harmful element is arsenic (As) which is low in content.

4.5 Exploration

A general exploration work in the Target Mine was carried out from August 2006 to November 2008. A total of 26 mineralized bodies were found, namely Nos. 1 to 26. Orebody No. 1 appears as vein-like which is located in the central part of the stipulated mining area. It is the major orebody of the deposit. Furthermore, the Business Enterprise has commissioned relevant technical expert to explore Orebody Nos. 2, 3 and 4 since June 2008.

4.6 Resources Estimation

Based on the Technical Report, the total estimated resources in compliance with Chinese resources categories at the Target Mine are approximately 1,888,498 tons of ore with average grading of 9.3 g/t, which comprises of 337,838 tons of 122b category, 789,517 tons of 333 category and 761,143 tons of 334 category. The following table summarizes the details of each category.

Resource category(i)	**Ore tonnage** *(tons)*	**Gold** *(kg)*	**Grade** *(g/t)*
122b	337,838	2,193	6.49
333	789,517	7,982	10.11
334	761,143	7,393	9.71

Table 3: Resources estimation of the Target Mine

Source: Technical Report

Notes:

(i) The estimated resources categories – 122b, 333 and 334 are based on Chinese Resources Categorization system which is a three-digit system based on economic, feasibility/mine design and geological degrees of confidence.

a) 122b : The estimated resource is economic viable; with a pre-feasibility work including trenches, tunnels, drilling and detailed mapping; under geological assurance; and "b" is a suffix used to distinguish Basic Reserves according to the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC code") standard.

b) 333 : The estimated resource is intrinsically economic; with geological study; and under inferred geological assurance.

c) 334 : The estimated resource is intrinsically economic; and under geological reconnaissance.

5.0 MINING PLAN

(i) Existing Status

During our site visit in April 2010, a small scale processing mill was built at the Target Mine with a daily ore processing capacity of 50 tons. There is no mining activity at present. The mill is not regularly operated so there is no production record for reference. However, a new concentrator will be built on the hillside nearby to replace the old processing mill.

(ii) Mine Design

The Target Mine is an underground mine. It will be developed by shaft and adit upon completion. There are four mining areas in the Target Mine, namely Gezidong area, Dakuangti area, Shuiquangou area and Machegou area. Among the four mining areas, only Gezidong area has completed the preliminary development system while the remaining mining areas are still in development stage. Orebody No. 1 is proposed to be exploited primarily.

(iii) Mining Method

The Management have decided to apply shallow-hole shrinkage stoping mining method and cutting and filling mining method. Most parts of the orebodies will be mined by using shallow-hole shrinkage mining method as the orebodies are more than 1 m thickness. For those orebodies with thickness less than 1 m, cutting and filing mining method is selected.

(iv) Processing Technology

As indicated in the Technical Report, two processing techniques are available for the extraction of gold ores, namely cyanidation leaching test and floatation test. From the result of cyanidation leaching test, it shows that the recovery rate of gold is good and has reached 96.77%, its processing capacity is 100 tons per day. For the floatation test, the overall gold recovery rate is 91.17% and its processing capacity is 1,000 tons per day. Both tests indicate that gold can be easily liberated and processed by either cyanidation leaching or by floatation.

However, as the processing capacity of cyanidation leaching technique is too small in scale, even though it has a higher gold recovery rate, the floatation technology will be adopted for the extraction.

(v) Production Schedule

Based on the estimated resources amount stated in the Technical Report and the forecasted production rate, it is believed that the resources are sufficient to support production for approximately 7 years. The following table represents the proposed output level of the Target Mine.

Output	Yr 2010 (Sept-Dec)	Yr 2011	Yr 2012	Yr 2013	Yr 2014	Yr 2015	Yr 2016
Gold (tons)	0.86	2.57	2.57	2.57	2.57	2.57	0.85
Total							14.56 tons

Table 4: Production schedule of the Target Mine

Source: Management

(vi) Processing Capacity

The original processing capacity is designated as 100 tons of ore per day. However, considering the potential of resources, the original production scale seems to be too small and therefore the Management has decided to build a processing plant with the processing capacity of 1,000 tons of ore per day.

(vii) Workforce Numbers

The proposed workforce numbers at the Target Mine are 634, based on the proposed mining and processing capacity of 1,000 tons of ore per day. The working days per year is set to be 300, with 3 shifts each day and 8 hours per shift. This 634 head count figure included 61 in company's headquarters administration, 448 in the mining department, 86 in the processing plant, 12 in the safety department and the remaining in the repairs and maintenance workshop and sales department.

(viii) Mining and Processing Costs

The Management intends to appoint and utilize the services of local mining contractors for the construction, development and operation of the Target Mine. The mining contracts to be signed are based on the amount of ore mined and other measures such as average grade and dilution rate. In addition, the management cost of the Target Mine is estimated at approximately RMB80 per ton of ore as provided by the Management. The respective mining costs and processing costs at the Target Mine presented in the Technical Report are extracted as below.

Item	RMB per ton of ore
Mining costs	
– Sharing of development costs	45.0
– Consumbles	13.5
– Labour	10.0
– Mine site geotechnical works	7.5
– Maintenance and administration	2.5
– Power	2.5
Processing costs	
– Power Maintenance	30.0
– Consumables	27.0
– Labour	7.5
– Steel balls	6.5
– Reagents	3.5
– Administration	2.5
Total mining and processing costs per ton of ore:	**158.0**

(ix) Capital Expenditure and Other Material Costs

According to the information extracted from the Technical Report, about RMB136 million is required for the mine development, set-up of ore processing plants and construction of storage and other supporting facilities.

Capex	**1st half of 2010**	**2nd half of 2010**	**Total**
	(RMB'0000)	*(RMB'0000)*	*(RMB'0000)*
– Metallurgical Processing plant	2,230	3,398	5,628
– Mining development	1,000	2,060	3,060
– Support facility	1,220	606	1,826
– Storage facility	500	260	760
– Others	1,450	876	2,326
Total CAPEX	**6,400**	**7,200**	**13,600**

6.0 INTERNATIONAL GOLD MARKET

6.1 Overview of International Gold Market

For centuries, gold has been valued as a global currency, a commodity and an investment. It also remains a popular and viable method of preserving and growing wealth during economic downturns as well as periods of prosperity.

At 2009, the global above-ground stock of gold is approximately 167,000 tons, according to the statistics from World Gold Council (WGC). Half of the world's gold stock is in jewellery while the rest is held by national banks and private investors, or used for industrial purposes. The majority of annual gold demand is met by mine production, recycling of gold mined in previous years and net sales by central banks. The price of gold is determined based on over-the-counter transactions and global trading on a number of exchanges. Major exchanges include New York Mercantile Exchange (NYMEX), the London Bullion Market, Tokyo Commodity Exchange (TOCOM), and the Shanghai Gold Exchange (SGE) in the People's Republic of China. Gold prices are typically quoted in US dollars per fine troy ounce of gold.

Gold would remain as a significant financial asset in the current year, especially in times of increasingly volatile and vulnerable financial markets. The factors that would continue to spur the investment demand for gold are explained below.

6.2 Global Demand and Supply of Gold

6.2.1 Demand of Gold in Global Market

The worldwide demand for gold remained robust as economic conditions improve. As gold's long term store of value and wealth preservation qualities continued to attract consumers and investors, total worldwide identifiable gold demand for the year ended at third quarter of 2009 reached 2,610.7 tons, which represented a 15% increase from the previous quarter.

Approximately 80% of the global demand for gold in 2009 was fabrication demand, which represented demands for jewellery, production of electronics, dental products, and other industrial and decorative applications. The primary drive for such fabrication demand was attributed to the continued growth of real disposable income.

Consumer demand of gold in different countries (in tons)

	Year ended Q3 2008			Year ended Q3 2009			% Change Y/E Q3 09 vs. Q3 08
	Jewels	Net retail invest.	Total	Jewels	Net retail invest.	Total	Total
India	442.4	190.7	633.1	342.5	81.0	423.5	–33%
China	348.9	65.3	414.2	372.8	85.7	458.5	11%
United States	221.1	49.5	270.6	161.7	108.5	270.2	0%
Turkey	174.7	60.7	235.4	83.7	28.3	112.0	–52%
Saudi Arabia	111.1	8.5	119.6	86.2	14.7	100.9	–16%
Others	913.6	209.0	1,122.6	720.1	525.6	1,245.7	11%
Total	2,211.8	583.7	2,795.5	1,767.0	843.8	2,610.7	–7%

Table 5 : Consumer demand of gold in different countries in tons

Source: World Gold Council, 2009

Jewellery demand in Q3 2009 was 20% below year-earlier levels. Most countries recorded a decline, the most severe ones being Turkey, India and Saudi Arabia (-52%, -33% and -16% respectively). In each case, the magnitude is exacerbated by an exceptionally strong Q3 2008. The exception to the trend was China, where there was a 11% increase in tons compared to the same period in 2008.

Persistent weakness of dollars had also driven the investment demand for gold. The US dollars has lost 5% against the Euro since September 2007 and the US dollar index had traded at its lowest at 70 in mid 2008. The value and purchasing power of paper currencies had declined over the years relative to gold, thus investors who were bearish on the outlook for the US dollars may consider it appropriate to use gold as a hedge against this currency risk. This explained why the overall investment demand for gold had showed a positive growth in most countries for the year ended Q3 2009 compared to year-earlier levels.

Gold performance's as a hedge against inflation was also one of the reasons why people buy it. While gold's short term effectiveness as an inflation hedge may vary, it remained a reliable store of value over the long term.

All the above market dynamics had contributed to the sustained increase in the global demand of gold.

6.2.2 Supply of Gold in Global Market

Whilst demand remained strong, the overall level of gold mine production remained relatively stable, averaging approximately 2,485 tons per year over the last five years. Total supply in 2009 was 2,553 tons, representing a slightly 6% increase compared to 2008. The top five gold producing countries in the world are China, South Africa, United States, Australia and Peru.

World's top gold producing countries from 2007 to 2009

	Mines production (tons)		
Countries	**2007**	**2008**	**2009**
China	280	282	314
South Africa	270	220	210
Australia	245	219	227
United States	244	229	216
Peru	170	175	182
Others	1,269	1,284	1,404
Total gold mining output	2,478	2,409	2,553

Table 6 : World's top gold producing countries from 2007 to 2009

Source: GFMS Limited, January 2010

According to the summary above, China is the only country among the major gold producers with a growing production, with a 7% increase and an annual production totalled 282 tons in 2008. All other countries reported gradual declines throughout the years mainly due to the extinction of large-scale economical gold deposits.

Though China has recorded an ever-increasing gold supply, the comparatively long lead times in metal production means mining output is pretty inelastic and would be unable to react quickly to a change in price outlook.

On the other hand, central banks and supranational organizations (such as International Monetary Fund) currently hold around 10% of their office reserves in gold, though the proportion varies from country-by-country. The importance of gold as a key element of the global monetary reserves is further reaffirmed by the renewal of the Central Bank Gold Agreement (CBGA) on 7 August 2009. The agreement limits the sale of gold by central banks over the five year periods from 2,500 to 2,000 tons. Henceforth, it is expected that the supply of gold in the market will be diminishing in the future years.

6.3 PRC Gold Market

6.3.1 Overview of PRC Gold Market

In late 2002, Shanghai Gold Exchange (SGE) was established as a platform for supervising and coordinating the trading of gold bullion, bars and coins as well as all other precious metals in the PRC. Gold trading on the SGE is at the standard purities of Au9999 and Au9995. The gold prices quoted on SGE had increased by an average of 6.74% compared to last year to the level of approximately RMB 209 per gram, at October 2009.

6.3.2 Demand of Gold in the PRC

In 2009, China is the world's second largest gold consuming country after India. The increasing demand of gold in China is being fuelled by the flourishing economy of the nation, in which the consumers are indulged in buying their favourite luxury metals with their rising income levels. According to the Q3' 09 Gold Demand Trends Report issued by the World Gold Council (WGC), the Mainland China, as being supported by a 8.9% year on year growth in GDP, has experienced a 12% increase in consumer and net retail investment demand for gold compared to last quarter, reaching a record high of 120.2 tons.

China is currently the fifth-largest gold reserve nation after United States, Germany, France and Italy. In 2009, the PRC government has announced to considerably increase its official gold reserves from 600 to 1,054 tons. It is expected that this holdings of gold proportions will be further raised as Renminbi became increasingly internationalized.

World's official gold holding as of December 2009

Rank	**Country**	**Gold** *(tons)*	**Gold's share of total reserves** *(%)*
1	United States	8,133.5	68.7%
2	Germany	3,407.6	64.6%
3	IMF	3,005.3	N/A*
4	Italy	2,451.8	63.4%
5	France	2,435.4	64.2%
6	PRC	1,054.0	1.5%
7	Switzerland	1,040.1	28.8%
8	Japan	765.2	2.4%
9	Netherlands	612.5	51.7%
10	Russia	607.7	4.7%

Table 7 : World's official gold holding as of December 2009

Source: World Gold Council, December 2009

* *IMF does not allow this percentage to be calculated.*

The demand is further strengthened by the improved competitiveness of the Shanghai Gold Exchange (SGE). The liquidity of gold has increased significantly over the past few decades thanks to large number of brokers streamlining the process of buying and selling. Today's brokers have made trading gold and other gold stocks and exchange traded funds (ETFs) as easy and attractive as possible by offering nearly instant payments and guaranteed sales prices.

6.3.3 Supply of Gold in the PRC

On the supply side, China's gold output had rose 11% to a record high of 314 tons in 2009, which represented a 19% jump year on year. Nearly 60% of China's output came from the top 5 producing provinces – Shandong, Henan, Jiangxi, Fujian and Yunnan. According to the China Gold Association, China maintained its position as the world's top gold producer for the consecutive third year in 2009. The PRC's gold output has been increased significantly in both absolute and relatives terms compared to the global gold output.

While the volume of gold output increased, the total number of producers in the nation had dropped from approximately 1,200 to 700 due to significant industry consolidation. With soaring demand and limited supply of gold output, it is expected that the gold price will surpass past years' records and continued to strike high in the PRC market.

6.4 International Gold Price

The price of gold had a strong showing in the year 2009 sustaining a value over US$1,000 per ounce since early October. The price started the year at US$875/ounce and averaged US$959/ounce. The value of gold climbed steadily throughout the year with the price ranging from US$812/ounce and peaked over US$1,200/ounce in early December 2009. The price is now consolidating around US$1,130/ounce in January 2010.

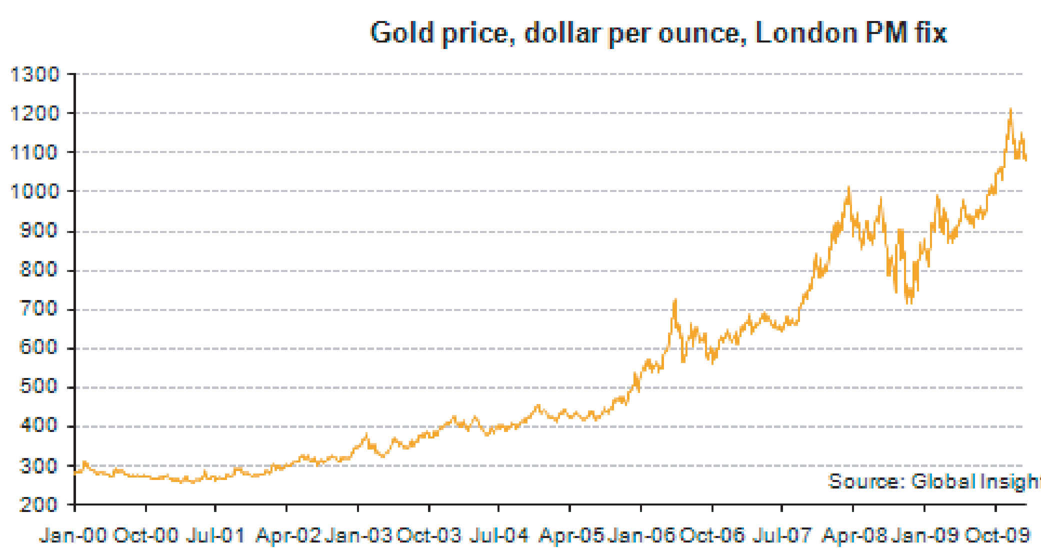

Figure 2 : International Gold Price from 2000 to 2009

Source: www.kitco.com

As true for all assets, gold price moves in response to the changing dynamics between its market demand and supply. Mine production is relatively inelastic due to the long lead times in gold mining. Meanwhile, demand has shown sustained growth, partly due to the rising income levels in gold's key markets. This has created the most positive outlook for the price of this precious metal in the coming years.

6.5 China Economy Overview

China has experienced rapid economic growth over the past few years. According to the National Bureau of Statistics of China ("NBSC"), China's real GDP increased by 9.0% from 2007, and year-on-year growth for nominal GDP is 16.9% in 2008. Growth is expected to average at an impressive 7.8% heading into Year 2013, mainly contributed to continuous growth in domestic demand, private consumption and government spending.

Key economic indicators of the PRC

	2006	**2007**	**2008**
Real GDP year-on-year growth (%)	11.6	13.0	9.0
Nominal GDP year-on-year growth (%)	15.7	21.4	16.9
Per capita nominal GDP (RMB)	16,122.3	19,473.8	22,640.5

Table 8: Key economic indicators of the PRC from 2006 to 2008

Source: NBSC

The growth in GDP and the rate of urbanization have led to an improvement in living standards and an increase in purchasing power. Per capita annual disposable income levels of urban residents have increased substantially since 2000. During the period from 2000 to 2008, the per capita annual disposable income of urban households in the PRC increased from approximately RMB6,280 to RMB15,781, representing a compound annual growth rate (CAGR) of approximately 12.2%.

The PRC's market for consumer goods has expanded rapidly in the past few years led by the PRC's strong economy, growing middle class and increasing affluence of average citizens. For example, the number of households with an annual disposable income of over US$2,500 has been more than tripled, from approximately 81 million in 2000 to approximately 263 million in 2009. This income group accounted for 67.6% of total households in 2009, showing substantial increase from 23.1% in 2000.

7.0 MAJOR RISK FACTORS

There are certain risks involved in the operations of Target Mine and many of these risks are beyond our control. These risks can be characterized as (i) risks relating to gold mining and processing industries and the Target Mine; (ii) risks relating to the PRC.

(i) Risks relating to gold mining and processing industries and the Target Mine

- The resources data may be inaccurate, and hence the projected future production volumes, revenue and capital expenditures, which are based on these estimates, may differ materially from actual figures.

- The business operations are extensively impacted by the policies and regulations of the PRC Government.

- The continuing success depends on the ability to continue developing the Target Mine.

- The business and results of operations are susceptible to the cyclical nature of gold trading markets and are vulnerable to fluctuations in gold prices.

- The business requires significant and continuous capital investment.

- It may not have sufficient insurance coverage against potential operational risks.

- Accidents at the Target Mine or other neighbouring mines could materially and adversely affect our business operations.

(ii) Risks relating to the PRC

- Adverse changes in the PRC's economic, political and social conditions as well as governmental policies could have a material adverse effect on China's overall economic growth, which could in turn adversely affect the financial condition and results of operations.

- Concerns over China's high growth and measures taken by the PRC Government may lead to an increase in interest rates and a slowdown in economic growth.

8.0 DEFINITION OF APPRAISAL

Market Value is defined as the estimated amount for which the business should exchange on the date of valuation between a willing buyer and a willing seller in arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

Our valuation has been prepared in accordance with the HKIS Valuation Standards on Trade-related Business Assets and Business Enterprise (First Edition 2004) published by the Hong Kong Institute of Surveyors and the Business Valuation Standards (First Printed 2005) published by the Hong Kong Business Valuation Forum.

9.0 INVESTIGATION AND ANALYSIS

Our investigation included discussions with the Management in relation to the development and prospects of the gold mining and processing industries in the PRC, and the development, operations and other relevant information of the Target Mine. In addition, we have made relevant inquiries and obtained such further information, statistical figures regarding the gold mining and processing industries from external public sources as we consider necessary for the purpose of this appraisal. As part of our analysis, we have reviewed the Technical Report, business plan, financial information and other pertinent data concerning the Business Enterprise and the Target Mine provided to us by the Management and have considered such information and data as attainable and reasonable. We have also consulted other sources of financial and business information.

The appraisal of an interest in Target Mine requires consideration of all pertinent factors, which affect the operation of the business and its ability to generate future investment returns. The factors considered in this appraisal including but not limited to the following:

- The nature and the characteristics of the relevant permit(s) and license(s) such as the Exploration Permit and Mining Permit;
- Technical review of the mining operations and resources estimation by the technical experts;
- The economic and industry data affecting the mines and the mineral extraction industry in the PRC; and
- The market-derived investment return(s) of similar business.

10.0 GENERAL APPRAISAL APPROACHES

There are three generally accepted approaches to obtain the market value of the Target Mine, namely, the Market-Based Approach, the Asset-Based Approach and the Income-Based Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted in valuing business entities that is similar in nature.

10.1 Market-Based Approach

It values a business entity by comparison of the prices at which other similar business nature companies or interests changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to pay for an equally desirable alternative. By adopting this approach, we will first look for valuation indication from the prices of other similar companies or equity interest in companies that were sold recently.

The right transactions employed in analyzing for indications of value need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

The derived multiples (most commonly used are: price to earnings, price to revenues and price to book multiple) based on the analysis of those transactions are then to be applied to the fundamental financial variables of the subject business entity and to arrive at an indicated value of it.

10.2 Asset-Based Approach

The Asset-Based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represent the value of a business entity and equal to the value of its invested capital (equity and long term debt). In other words, the value of the business entity is represented by the money that has been made available to purchase the business assets needed.

This money comes from investors who buy stocks of the business entity (equity) and investors who lend money to the business entity (debt). After collecting the total amounts of money from equity and debt, and converted into various types of assets of the business entity for its operation, their sum equal the value of the business entity.

From a valuation perspective, we will restate the values of all types of assets of a business entity from book values, i.e. historical cost minus depreciation to appropriate standards of value. After the restatement, we can identify the indicated value of the business entity, or, by applying the accounting principle "assets minus liabilities", to arrive at the value of the equity interest of the business entity.

10.3 Income-Based Approach

The Income-Based Approach focuses on the economic benefits generated by the income producing capability of a business entity. The underlying theory of this approach is that the value of a business entity can be measured by the present worth of the economic benefits to be received over the life of the business entity.

Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realizing those benefits.

Alternatively, this can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

11.0 APPRAISAL APPROACH FOR THE TARGET MINE

In the process of valuing a business subject, we have taken into consideration the business nature, specialty of its operation and the industry it is participating. Having considered the three general valuation methodologies, we believed that the Income-Based Approach would be appropriate and reasonable in the appraisal for the market value of the Target Mine.

In this valuation, the Market-Based Approach is not appropriate as there are insufficient relevant comparable transactions to form a reliable basis for our opinion of value. The Cost-Based Approach is not appropriate as it ignores the economic benefits of the business. We have therefore relied solely on the Income-Based Approach in determining the opinion of value.

11.1 Discount Rate

It is simple method adopting the Income-Based Approach to state the value of a business in present value term. This method is simple and easy to understand. It is well accepted by most analysts and practitioners. A variety of basis has emerged in numerous attempts of establishing true value of a business. The latest attempt was looking from firm's investors perspective including stockholders and bondholders. That is the free cash flow available to the business as a whole.

This is a widely used and accepted method to determine market value of a business or a firm, which is based on a simple reversal calculation to restate all future cash flow as present worth. To adopt this method, we must however, first obtain the weighted average cost of capital (WACC) of the company as a basic discount rate. It is the minimum required return that a valuation subject must earn to satisfy its various capital providers including shareholders and debtholders. The WACC is calculated by taking into account the relative weights of each component of the capital structure. It is computed using the formula below:

$$WACC = We \times Re + Wd \times Rd \times (1 - T)$$

in which

Re = cost of equity
Rd = cost of debt
We = portion of equity value to enterprise value
Wd = portion of debt value to enterprise value
T = corporate tax rate

i) Cost of equity

From modern portfolio management perspective, typical investors are risk-averse and rational. They make all investment decisions based on risk and return of an investment opportunity. The cost of equity, therefore, should account for the risk premium, which is the required additional return over the risk free rate. Additional risk premiums such as country risk premium and size premium are added to reflect the other risk factors concerning the Business Enterprise. All the estimates are supported by public sources like Bloomberg and Morning Star. The capital asset pricing model (CAPM) is used to determine the appropriate cost of equity of the Business Enterprise.

Cost of equity = risk free rate + equity beta x market risk premium + size premium + country risk premium

Cost of equity calculation:

(1) Risk free rate	2.54%
Equity beta	0.86
(2) Market risk premium	6.33%
(3) Size premium	3.99%
(4) Country risk premium	1.35%
Cost of equity	**13.32%**

* Figures above are subject to rounding process

Notes:

(1) This is the yield of 5-year US treasury government bond.

(2) Market risk premium = market rate of return – risk free rate.

(3) This is the risk of small size company in 2010 based on the research conducted by Ibbotson Associates, Inc.

(4) This is the increased risk associated with investing in a developing country, including business risk, financial risk, liquidity risk, exchange rate risk & country risk.

Given the above variables, we have arrived the cost of equity of 13.32%.

ii) Cost of debt

The cost of debt was made reference to the China Above 5 Years Best Lending Rates. As at the Date of Appraisal, the China Above 5 Years Best Lending Rates is 5.94%.

iii) Weight of debt

The current debt level of the Business Enterprise is not desirable given its stage of development. To stay competitive in the industry, it is reasonable to assume that the Business Enterprise should achieve a debt level toward the average of the weight of debt of its industry comparables. Through the analysis of the industry comparables, the weight of debt is estimated as 11%.

iv) Weight of equity

The weight of equity is estimated as 89% by adopting the same basis as above.

Having considered that the Target Mine is at the preliminary stage of development, a 2% risk premium is added to reflect the pre-operational risk of the project.

The discount rate considered appropriate for this valuation as at the Date of Appraisal, taking into considerations of the above, is 14.35%, which is then applied to the after tax cash flow.

11.2 Marketability Discount

In addition, we have adopted a lack of marketability discount of 30% for the Business Enterprise as ownership interest in closely held companies are typically not readily marketable compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. Marketability discount for ownership interest in private companies can range from 3% to 35% according to empirical research. 30% discount is a professional judgement for this valuation based on our experience and the valuation subject.

12.0 APPRAISAL ASSUMPTIONS

- We have relied on the Technical Report, business plan and financial information provided by the Management in particular the gold resources as well as the grading and we have no responsibility for the reliability of the advice;

- In the course of our valuation, we have assumed that the inferred or even lower grade resources (334 category) are exploitable. As such, the said assumption may or may not be able to reflect the market value of the Target Mine as if only indicated resources are considered.

- We have assumed the Business Enterprise has free and uninterrupted rights to use or assign the interest of the Target Mine for the whole of the unexpired term as granted and any mining rights premiums/administrative costs payable have already been fully paid unless otherwise specified in our report;

- The relevant permit(s) and license(s) such as the Mining Permit is able to be renewed from time to time in order to achieve the planned exploitation and development of the Target Mine;

- As part of its going concern business, the Business Enterprise will successfully do all necessary activities for the completion and development of the Target Mine;

- The market value of the Business Enterprise is based on a total resources amount of 1,888,498 tons of ore;

- The proposed capital investment of the Target Mine is RMB136 million;

- The market sale price of the gold is RMB244.4 per gram which is referenced to Shanghai Gold Ex Au 9995 Gold Index closing price on the Date of Appraisal;

- The unit mining and processing costs at the Target Mine is RMB158 per ton of ore mined;

- The resources fee is RMB3 per ton of ore mined;

- The management fee is RMB80 per ton of ore mined;

- The corporate income tax in the PRC is 25% as at the Date of Appraisal;

- As per the Technical Report, the recovery rate for the processing stage is approximately 92% and the mining loss is about 10%;

- The Business Enterprise has adequate working capital to implement the scheduled mining operations from time to time;

- In the course of our valuation, working capital is assumed to be 10% of the mining and processing costs;

- There exist reliable and adequate transportation network and capacity for the mining products;

- The Company, after completion of the transaction, will retain competent Management, key personnel, and technical staff to support the ongoing operation and development of the mining business;

- All required licenses, certificates, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organization have been or can readily be obtained or renewed by the Management on which the valuation contained in our report are based;

- There will not be material changes in government policies or political, legal (including legislation or regulations or rules), fiscal (including interest rate and exchange rate), market or economic conditions, the bases or rates of taxation in the PRC, where the Target Mine is situated;

- The Management has adopted reasonable and necessary security measures and has considered several contingency plans against any disruption (such as fire, change of government policy, labour dispute, implementation of stringent statutory mining safety measures, geologic formation structurally deformed, soil erosion and other types of unexpected accidents or natural disasters or catastrophes) to the scheduled mining operations; and

- The Target Mine can be freely disposed and transferred free of all encumbrances for its existing or approved uses in the market to both local and overseas purchasers without payment of any premium to the PRC government.

13.0 LIMITING CONDITIONS

This appraisal reflects facts and conditions existing at the Date of Appraisal. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied to a considerable extent on information provided by the Management in arriving at our opinion of value. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

We have, when and where possible, conducted a limited scope of inspections of the Target Mine, in particular the area in respect of which we have been provided with such information as we have requested for the purpose of our valuation. During our on site inspection conducted in April 2010, we noticed that there is a small scale processing plant but has ceased into operation. In the course of our valuation, we have relied solely on the information provided by the Management. No verification from our part is assumed.

As agreed, the purpose of the inspection is not to have a full scope investigation on the quantity and the quality of the Target Mine; rather, it is designed to give us a better understanding of the project and its surrounding areas. No responsibility or liability is assumed.

We have not carried out on-site measurements to verify the correctness of the dimensions, specifications and areas of the Target Mine, but have assumed that the figures shown on the documents and handed to us are correct. All dimensions, measurements and areas are approximations.

We have not investigated the title to or any legal liabilities of the Business Enterprise and have assumed no responsibility for the title to the Business Enterprise appraised.

We would particularly point out that our appraisal was based on the information such as company background, business nature, market share, future prospecting and in particular the Technical Report and the business plan of the Business Enterprise provided to us.

Our conclusion of the market value is derived from generally accepted appraisal procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby confirm that we have neither present nor prospective interests in the Business Enterprise, the Company and its holding companies, subsidiaries and associated companies, or the value reported herein.

14.0 REMARKS

Unless otherwise stated, all monetary amounts stated in this appraisal report are in Renminbi (RMB). The exchange rate adopted in our valuation is approximately HKD1 = RMB0.88.

15.0 OPINION OF VALUE

Based on the investigation and analysis stated above and on the appraisal method employed, we are of the opinion that the market value of the Target Mine in its existing state, as at the Date of Appraisal was in the sum of RMB1,000,000,000 **(RENMINBI ONE BILLION ONLY).**

Yours faithfully,
For and on behalf of
Norton Appraisals Limited

Nick C. L. Kung
Registered Business Valuer of HKBVF
MRICS, MHKIS, RPS (G.P.)
Director, Corporate Valuations

Note: Mr. Nick C. L. Kung is a Registered Professional Surveyor and Registered Business Valuer of the Hong Kong Business Valuation Forum (HKBVF) who has more than 6 years' experience in business valuation in Hong Kong and the PRC.

A. REPORT FROM HLB HODGSON IMPEY CHENG

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

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

31 May 2010

The Board of Directors
Sino Prosper State Gold Resources Holdings Limited
Unit 1702-04, 17/F., Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

We have examined the arithmetical accuracy of the calculations of the discounted cash flow forecast underlying the business valuation (the "Underlying Forecast") in relation to the appraisal of the valuation of a gold mine located at Gouliang Town, Aohanqi, Inner Mongolia Autonomous Region, the People's Republic of China (hereinafter referred to as the "Target Mine"), which is regarded as a profit forecast under paragraph 29(2) of Appendix 1B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Underlying Forecast is set out in Appendix V "Valuation Report on the Target Mine" to the circular of Sino Prosper State Gold Resources Holdings Limited (the "Company") dated 31 May 2010 (the "Circular").

Responsibilities

The directors of the Company (the "Directors") are responsible for the preparation of the Underlying Forecast and the reasonableness and validity of the assumptions based on which the Underlying Forecast are prepared (the "Assumptions"). It is our responsibility to form an opinion, based on our work on the arithmetical accuracy of the calculation of the Underlying Forecast and to report our opinion solely to you, as a body, solely for the purpose of reporting under paragraph 29(2) of Appendix 1B of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work. Because the Underlying Forecast relate to cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events as detailed in Appendix V to the Circular and management actions that cannot be confirmed and verified in the same way as past results, and these assumptions may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Underlying Forecast and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express opinion whatsoever thereon.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" with reference to the procedures under Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants. We have examined the arithmetical accuracy of the calculations of the Underlying Forecast. Our work has been undertaken solely to assist the Directors in evaluating whether the Underlying Forecast, so far as the arithmetical accuracy of the calculations are concerned, has been properly compiled in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation of the Target Mine.

Opinion

In our opinion, so far as the arithmetical accuracy of the calculations are concerned, the Underlying Forecast has been properly compiled in accordance with the Assumptions made by the Directors.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

B. REPORT FROM CINDA INTERNATIONAL CAPITAL LIMITED

信達國際融資有限公司
CINDA INTERNATIONAL CAPITAL LIMITED

31 May 2010

The Directors
Sino Prosper State Gold Resources Holdings Limited
Units 1702-04, 17/F
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong.

Dear Sirs,

We refer to the discounted cash flow forecasts underlying the business valuation (the "Valuation") prepared by Norton Appraisals Limited ("Norton") in relation to the appraisal of the valuation of the Target Mine. The Valuation is regarded as a profit forecast under paragraph 29(2) of Appendix 1B of the Listing Rules and the Valuation is set out in Appendix V to the circular of the Company dated 31 May 2010 (the "Circular"), of which this report forms part of. Capitalised terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

We have reviewed the forecasts upon which the Valuation has been made for which you as the Directors are solely responsible, and have discussed with you and Norton the information and documents provided by you which formed part of the basis and assumptions upon which the forecasts have been prepared. We have also considered the letter from HLB Hodgson Impey Cheng dated 31 May 2010 addressed to yourselves as set out in Section A of this Appendix to the Circular regarding the calculations upon which the forecasts have been made. We have noted that no accounting policies of the Company have been adopted in its preparation as the Valuation relates only to cashflows.

On the basis of the foregoing, we are satisfied that the forecasts upon which the Valuation has been made, for which you as the directors of the Company are solely responsible, have been made after due and careful enquiry by you.

Yours faithfully,
For and on behalf of
Cinda International Capital Limited
Thomas Lai
Director

A. SUMMARY OF THE FINANCIAL INFORMATION OF 2009 TARGET PRC

Set out below is the financial information of 2009 Target PRC (the "Financial Information") for the period from 15 Feb 2007 (date of establishment) to 31 December 2007, the year ended 31 December 2008 and the three months period ended 31 March 2009 (the "Relevant Periods").

I. FINANCIAL INFORMATION

Income statements

	Notes	For the period from 15 February 2007 (date of establishment) to 31 December 2007	Year ended 31 December 2008	For the three months period ended 31 March 2008	For the three months period ended 31 March 2009
		HK$	*HK$*	*HK$*	*HK$*
		(Audited)	(Audited)	(Unaudited)	(Audited)
Revenue	*5*	–	–	–	–
Other income	*7*	4,852	848	–	1,901
General and administrative expenses		(21,502)	(92,021)	(11,309)	(90,003)
Loss before tax		(16,650)	(91,173)	(11,309)	(88,102)
Income tax expense	*8*	–	–	–	–
Loss for the period/year	*9*	(16,650)	(91,173)	(11,309)	(88,102)

Balance sheets

	Notes	As at 31 December 2007 HK$ (Audited)	As at 31 December 2008 HK$ (Audited)	As at 31 March 2009 HK$ (Audited)
Non-current assets				
Exploration and evaluation assets	14	–	327,423	329,22
Current assets				
Other receivables	15	808	1,808	36,530
Amount due from a shareholder	16	73,610	–	–
Bank balances and cash	17	443,346	142,404	83,109
		517,764	144,212	119,639
Current liabilities				
Other payables	18	–	2,865	43,740
Amount due to a shareholder	16	–	10,710	35,720
		–	13,575	79,460
Net current assets		517,764	130,637	40,179
Net assets		517,764	458,060	369,399
Capital and reserves				
Paid up capital	19	504,915	504,915	504,915
Reserves		12,849	(46,855)	(135,516)
Total equity		517,764	458,060	369,399

Notes to the Financial Information

1. BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

The Financial Information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information of the 2009 Target PRC is presented in Hong Kong dollars, whereas the functional currency of the 2009 Target PRC is Renminbi.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The 2009 Target PRC has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

		Notes
HKFRSs (Amendments)	Improvements to HKFRSs	*1*
HKFRSs (Amendments)	Improvements to HKFRSs 2009	*2*
HKAS 1 (Revised)	Presentation of Financial Statements	*3*
HKAS 23 (Revised)	Borrowing Costs	*3*
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	*4*
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation	*3*
HKAS 39 (Amendment)	Eligible Hedged Items	*4*
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	*3*
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations	*3*
HKFRS 3 (Revised)	Business Combinations	*4*
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments	*3*
HKFRS 8	Operating Segments	*3*
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives	*5*

HK(IFRIC)-Int 13	Customer Loyalty Programmes	*6*
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate	*3*
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation	*7*
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners	*4*
HK(IFRIC)-Int 18	Transfers of Assets from Customers	*8*

Notes:

1. Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2. Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate
3. Effective for annual periods beginning on or after 1 January 2009
4. Effective for annual periods beginning on or after 1 July 2009
5. Effective for annual periods ending on or after 30 June 2009
6. Effective for annual periods beginning on or after 1 July 2008
7. Effective for annual periods beginning on or after 1 October 2008
8. Effective for transfers of assets from customers received on or after 1 July 2009

The directors of the 2009 Target PRC anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the 2009 Target PRC.

3. SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

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

Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less impairment losses. Exploration and evaluation assets are mainly comprised by cost to acquire exploration rights, expenditures incurred during topographical exploration process, including topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies. If any project is abandoned, the total expenditure thereon will be written off to the income statement.

Leasing

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

The 2009 Target PRC as lessee

Rental payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the Financial Information of the 2009 Target PRC, transactions in currencies other than the functional currency of the 2009 Target PRC (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the 2009 Target PRC operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which cases, the exchange differences are also recognized directly in equity.

For the purposes of presenting the Financial Information, the assets and liabilities of the 2009 Target PRC are translated into the presentation currency (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The 2009 Target PRC's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Impairment of tangible and intangible assets other than goodwill

At each balance sheet date, the 2009 Target PRC reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as revaluation increase under that standard.

Financial instruments

Financial assets and financial liabilities are recognized on the balance sheet when the 2009 Target PRC becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The 2009 Target PRC's financial assets are classified as loans and receivables.

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including other receivables, amount due from a shareholder and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. In a subsequent period, if the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the 2009 Target PRC are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The 2009 Target PRC's financial liabilities are generally classified as other financial liabilities.

Effective interest method

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

Interest expense is recognized on an effective interest basis.

Other financial liabilities

Other financial liabilities (including other payables and amount due to a shareholder) are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by the 2009 Target PRC are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the 2009 Target PRC has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss. If the 2009 Target PRC retains substantially all the risks and rewards of ownership of a transferred financial asset, the 2009 Target PRC continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Provisions

Provisions are recognized when the 2009 Target PRC has a present obligation as a result of a past event, and it is probable that the 2009 Target PRC will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the 2009 Target PRC's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

Impairment of exploration and evaluation assets

The application of the 2009 Target PRC's accounting policy for exploration and evaluation assets requires judgment in determining whether it is likely that future economic benefits will result, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the income statement in the period when the new information becomes available. More details are given in note 14.

5. REVENUE

The 2009 Target PRC did not generate any revenue during the Relevant Periods.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

No business segment information has been presented as the 2009 Target PRC has not yet commenced business during the Relevant Periods and intends to principally engage in the wholesale of steel, building materials, sunflower seeds, green beans, red beans and kidney beans and carrying out exploration work at the places which have obtained the exploration permits.

No geographical segment information has been presented as all the 2009 Target PRC's assets at 31 December 2007 and 2008 and 31 March 2009 were located in the PRC.

7. OTHER INCOME

	For the period from 15 February 2007 (date of establishment) to 31 December 2007	Year ended 31 December 2008	For the three months period ended 31 March 2008	For the three months period ended 31 March 2009
	HK$	*HK$*	*HK$*	*HK$*
			(Unaudited)	
Bank interest income	4,852	848	–	1,901

8. INCOME TAX EXPENSE

The 2009 Target PRC was subject to PRC Enterprise Income Tax at a rate of 33% for the period from 15 February 2007 (date of establishment) to 31 December 2007 and 25% for the year ended 31 December 2008 and the three months period ended 31 March 2008 and 2009. No provision for PRC Enterprise Income Tax has been made as the 2009 Target PRC did not generate any taxable profit in the PRC during the Relevant Periods.

No deferred tax assets and liabilities are recognized in the Financial Information as the 2009 Target PRC did not have material temporary differences arising between the tax bases of assets and liabilities and their carrying amounts at 31 December 2007 and 2008 and 31 March 2009.

9. LOSS FOR THE PERIOD/YEAR

	For the period from 15 February 2007 (date of establishment) to 31 December 2007 *HK$*	Year ended 31 December 2008 *HK$*	For the three months period ended 31 March 2008 *HK$* (Unaudited)	For the three months period ended 31 March 2009 *HK$*
Auditors' remuneration	–	–	–	–
Employee benefits expense (including directors' emoluments)				
– Salaries and other benefits	12,600	40,532	9,882	10,220
– Contributions to retirement benefits schemes	–	–	–	–
Operating lease rentals in respect of land and buildings	–	–	–	6,154

10. DIRECTORS' EMOLUMENTS

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

	Fees	Salaries and other benefits	Contribution to retirement benefits schemes	Total
	HK$	*HK$*	*HK$*	*HK$*
For the period from 15 February 2007 (date of establishment) to 31 December 2007				
高麗艷 *(Note i)*	–	6,300	–	6,300
Year ended 31 December 2008				
高麗艷 *(Note i)*	–	20,266	–	20,266
For the three months period ended 31 March 2008 (unaudited)				
高麗艷 *(Note i)*	–	4,941	–	4,941
For the three months period ended 31 March 2009				
高麗艷 *(Note i)*	–	1,703	–	1,703
劉家慶 *(Note ii)*	–	–	–	–
劉萬林 *(Note ii)*	–	–	–	–
江南 *(Note ii)*	–	–	–	–
Total emoluments	–	1,703	–	1,703

There were no arrangements under which a director of the 2009 Target PRC waived or agreed to waive any remuneration during the Relevant Periods. There were no discretionary bonuses paid to the directors or the highest paid, non-director employees of the 2009 Target PRC during the Relevant Periods.

Notes:

i. Appointed on 15 February 2007 and resigned 30 January 2009

ii. Appointed on 23 March 2009

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the 2009 Target PRC included one director during the Relevant Periods whose emoluments are included in the disclosures in Note 10 above. The emoluments of the remaining highest paid individuals for the Relevant Periods, which fell within the salary band of Nil – HK$1 million, were as follows:

	For the period from 15 February 2007 (date of establishment) to 31 December 2007	Year ended 31 December 2008	For the three months period ended 31 March 2008	For the three months period ended 31 March 2009
	HK$	*HK$*	*HK$*	*HK$*
			(Unaudited)	
Salaries and other benefits	6,300	20,266	4,941	8,517
Contribution to retirement benefits schemes	–	–	–	–
Total emoluments	6,300	20,266	4,941	8,517

During the Relevant Periods, no emoluments were paid by the 2009 Target PRC to the five highest paid individuals, including directors, as an inducement to join or upon joining the 2009 Target PRC or as compensation for loss of office.

Compensation to key management personnel

The directors of the 2009 Target PRC consider that they are the only key management personnel of the Target PRC.

12. RETIREMENT BENEFIT SCHEMES

The employees employed in the 2009 Target PRC are members of the state-managed retirement benefits schemes operated by the PRC government. The 2009 Target PRC are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the 2009 Target PRC with respect to the retirement benefits schemes is to make the required contributions under the schemes.

As at 31 December 2007 and 2008 and 31 March 2009, there were no forfeited contributions available for the 2009 Target PRC to offset contributions payable in future years.

13. LOSS PER SHARE

Loss per share has not been presented as such information is not considered meaningful for the purpose of this report.

14. EXPLORATION AND EVALUATION ASSETS

	Total
	HK$
At cost	
At 15 February 2007 (date of establishment), and 31 December 2007	–
Additions	327,423
At 31 December 2008	327,423
Additions	2,199
Exchange adjustments	(402)
At 31 March 2009	329,220

15. OTHER RECEIVABLES

	As at 31 December 2007	As at 31 December 2008	As at 31 March 2009
	HK$	*HK$*	*HK$*
Prepayments	–	–	34,725
Other receivables	808	1,808	1,805
	808	1,808	36,530

The financial assets included in other receivables relate to receivables that were neither past due nor impaired.

16. AMOUNT DUE FROM/(TO) A SHAREHOLDER

The amount due from/(to) a shareholder is as follows:

	As at 31 December 2007	As at 31 December 2008	As at 31 March 2009
	HK$	*HK$*	*HK$*
高麗艷	73,610	(10,710)	(35,720)
Highest outstanding balance during the period/year	428,012	73,610	–

The amount due from/(to) a shareholder is unsecured, interest-free and repayable on demand.

17. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the 2009 Target PRC and bank balances that earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy bank with no recent history of default.

18. OTHER PAYABLES

	As at 31 December 2007	As at 31 December 2008	As at 31 March 2009
	HK$	*HK$*	*HK$*
Other payables	–	2,865	43,740

The other payables are non-interest-bearing.

19. PAID UP CAPITAL

	As at 31 December 2007	As at 31 December 2008	As at 31 March 2009
	HK$	*HK$*	*HK$*
Registered capital of RMB500,000	504,915	504,915	504,915

20. CAPITAL RISK MANAGEMENT

The 2009 Target PRC manages its capital to ensure that the 2009 Target PRC will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the 2009 Target PRC consists of cash and cash equivalents and equity attributable to equity holders of the 2009 Target PRC, comprising paid up capital, reserves and accumulated losses. In order to maintain or adjust the capital structure, the Target PRC may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

21. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December 2007 *HK$*	As at 31 December 2008 *HK$*	As at 31 March 2009 *HK$*
Financial assets:			
Loans and receivables:			
– Other receivables	808	1,808	1,805
– Amount due from a shareholder	73,610	–	–
– Bank balances and cash	443,346	142,404	83,109
Financial liabilities:			
Financial liabilities at amortized cost:			
– Other payables	–	2,865	43,740
– Amount due to a shareholder	–	10,710	35,720

(b) Financial risk management objectives and policies

The 2009 Target PRC's major financial instruments include other receivables, amount due from a shareholder, bank balances and cash, other payables and amount due to a shareholder. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

There has been no change to the 2009 Target PRC's exposure to market risk or the manner in which it manages and measures the risk.

Foreign currency risk

The directors of the 2009 Target PRC consider that the 2009 Target PRC is not exposed to significant foreign currency risk.

Interest rate risk

The 2009 Target PRC is exposed to minimal interest rate risks as the 2009 Target PRC's financial assets and liabilities are non-interest bearings.

Price risk

As the 2009 Target PRC has no significant investments in financial assets at fair value through profit or loss or available-for-sale financial assets, the 2009 Target PRC is not exposed to significant price risk.

Credit risk

The 2009 Target PRC has no significant credit risk, including risk resulting from counterparty default and risk of concentration. The 2009 Target PRC has policies in place for the control and monitoring of such credit risk.

Liquidity risk

The liquidity of the 2009 Target PRC is managed and monitored by maintaining sufficient cash balances. The directors of the Target PRC consider that the 2009 Target PRC does not have significant liquidity risk.

All the 2009 Target PRC's financial liabilities are repayable on demand. In our opinion of the directors of the 2009 Target PRC, the preparation of maturity profile is not necessary.

(c) Fair value of financial instruments

The directors of the 2009 Target PRC consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Financial Information approximate their fair values.

B. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP AS ENLARGED BY THE 2009 ACQUISITION

Set out below is the unaudited pro forma financial information of the Group as enlarged by the 2009 Acquisition (the "2009 Enlarged Group") for the period ended 31 March 2009 prepared by the Directors to illustrate the effect of the 2009 Acquisition, which is extracted from Appendix III of the circular of the Company dated 31 August 2009, for illustration purposes only, based on the judgments and assumptions of the Directors. Shareholders are advised to read in conjunction with such circular of the Company for more information regarding the 2009 Acquisition.

1. PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE 2009 ENLARGED GROUP

	The Group for the year ended 31 March 2009	The 2009 Target BVI for the year ended 31 December 2008	The 2009 Target HK for the period ended 31 December 2008	The 2009 Target PRC for the year ended 31 December 2008	Pro forma adjustments		Pro forma 2009 Enlarged Group for the year ended 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					Note 1.1	*Note 1.2*	
Revenue	31,335	–	–	–			31,335
Cost of sales	(30,774)	–	–	–			(30,774)
Gross profit	561	–	–	–			561
Other income and gains	6,147	–	–	1			6,148
General and administrative expenses	(16,275)	(16)	(6)	(92)			(16,389)
Finance costs	(40)	–	–	–	(2,515)	(4,091)	(6,646)
Loss before tax	(9,607)	(16)	(6)	(91)			(16,326)
Income tax expense	(355)	–	–	–		675	320
Loss for the year/period	(9,962)	(16)	(6)	(91)			(16,006)

Notes to the unaudited pro forma consolidated income statement of the 2009 Enlarged Group:

1.1 The adjustment reflects the imputed interest expense of approximately HK$2,515,000 on the convertible bonds issued as part of the final consideration for the 2009 Acquisition, as if the 2009 Acquisition had been completed and the convertible Bonds were issued by the Company at the commencement of the period reported on. For the purpose of the preparation of the unaudited pro forma consolidated income statement, the imputed interest expense has been computed on the assumption that the principal amount of the convertible bonds was approximately HK$136,364,000, carried an effective interest rate of 2.04% per annum and had a fixed term of 5 years from the date of issue. This adjustment is expected to have a continuing effect on the 2009 Enlarged Group.

1.2 The adjustment reflects the notional interest expense of approximately HK$4,091,000 on the promissory note, and the corresponding tax effect calculated at the Hong Kong Profits Tax rate of 16.5% thereon, as if the 2009 Acquisition had been completed and the promissory note of principal amount of RMB240,000,000 (equivalent to approximately HK$272,727,000) was issued by the Company at the commencement of the period reported on. For the purpose of the preparation of the unaudited pro forma consolidated income statement, the notional interest expense has been computed on the assumption that the promissory note was outstanding for twelve months. This adjustment is expected to have a continuing effect on the 2009 Enlarged Group.

2. PRO FORMA CONSOLIDATED BALANCE SHEET OF THE 2009 ENLARGED GROUP

	The Group as at 31 March 2009	The 2009 Target BVI as at 31 March 2009	The 2009 Target HK as at 31 March 2009	The 2009 Target PRC as at 31 March 2009	Pro forma adjustments					Pro forma 2009 Enlarged Group as at 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					Note 2.1	*Note 2.2*	*Note 2.3*	*Note 2.4*	*Note 2.5*	
Non-current assets										
Property, plant and equipment	733	–	–	–						733
Exploration and evaluation assets	–	–	–	329	409,091	2,800		(1,219)	223,992	634,993
	733	–	–	329						635,726
Current assets										
Trade and other receivables	81,870	–	–	37						81,907
Amounts due from minority shareholders	2,815	–	–	–						2,815
Bank balances and cash	230,232	–	1	83		(2,800)	1,190			228,706
	314,917	–	1	120						313,428
Current liabilities										
Trade and other payables	40,951	–	–	44						40,995
Amount due to a director	–	16	13	–			1,190	(1,219)		–
Amount due to a shareholder	–	–	–	36						36
Obligation under a hire-purchase contract	124	–	–	–						124
Tax liabilities	355	–	–	–						355
	41,430	16	13	80						41,510
Net current assets/(liabilities)	273,487	(16)	(12)	40						271,918
Total assets less current liabilities	274,220	(16)	(12)	369						907,644

	The Group as at 31 March 2009	The 2009 Target BVI as at 31 March 2009	The 2009 Target HK as at 31 March 2009	The 2009 Target PRC as at 31 March 2009	Pro forma adjustments					Pro forma 2009 Enlarged Group as at 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					Note 2.1	*Note 2.2*	*Note 2.3*	*Note 2.4*	*Note 2.5*	
Non-current liabilities										
Convertible bonds	–	–	–	–	125,836					125,836
Promissory note	–	–	–	–	272,727					272,727
	–	–	–	–						398,563
Net assets/(liabilities)	274,220	(16)	(12)	369						509,081
Capital and reserves										
Share capital	15,674	–	–	505					(505)	15,674
Share premium and reserves	257,461	(16)	(12)	(136)	10,528				164	267,989
Equity attributable to equity holders of the Company	273,135	(16)	(12)	369						283,663
Minority interests	1,085	–	–	–					224,333	225,418
Total equity	274,220	(16)	(12)	369						509,081

Notes to the unaudited pro forma consolidated balance sheet of the 2009 Enlarged Group:

2.1 The adjustment reflects the settlement of the final consideration for the 2009 Acquisition of RMB360,000,000 (equivalent to approximately HK$409,091,000) in the following manner:

(i) RMB120,000,000 (equivalent to approximately HK$136,364,000) to be satisfied by the Purchaser procuring the Company to issue the convertible bonds to the vendor on completion of the 2009 Acquisition; and

(ii) the balance of RMB240,000,000 (equivalent to approximately HK$272,727,000) to be satisfied by the purchaser (or the Company (if mutually agreed by the vendor and the purchaser)) to issue the promissory note to the vendor on completion of the 2009 Acquisition.

For the purpose of the preparation of the unaudited pro forma consolidated balance sheet, it has been assumed that:

(i) the final consideration has been adjusted to RMB360,000,000 (equivalent to approximately HK$409,091,000) pursuant to the terms of the Agreement of the 2009 Acquisition, of which RMB120,000,000 was satisfied by the issuance of the convertible bonds and the remaining RMB240,000,000 was satisfied by the issuance of the promissory note;

(ii) the face value of the convertible bonds approximated their fair value at the date of exchange and the convertible bonds are compound financial instruments of two elements, liability component and equity component. The fair value of the liability component of the convertible bonds is estimated using the discounted cash flow approach at the prevailing market rate of approximately 1.62%. The fair value of the equity component of the convertible bonds is represented by the residual amount after taking out the liability component. At the date of exchange, an amount of approximately HK$125,836,000 is credited as the liability component of the convertible bonds. The amount of approximately HK$10,528,000, representing the difference between approximately HK$136,364,000, being the face value of the convertible bonds and the liability component of the convertible bonds is recorded as the fair value of the equity component of the convertible bonds;

(iii) the face value of the promissory note approximated its fair value at the date of exchange; and

(iv) the estimated costs directly attributable to the 2009 Acquisition of approximately HK$2,800,000 were paid by the Group from internal resources of the Group on 31 March 2009.

Since the actual dates of settlement of the consideration and the estimated costs directly attributable to the 2009 Acquisition would be different from the assumptions used in the preparation of the unaudited pro forma consolidated balance sheet presented above, the actual financial position arising from the 2009 Acquisition might be materially different from the financial position.

2.2 The adjustment reflects the payment of the estimated costs directly attributable to the 2009 Acquisition of approximately HK$2,800,000 by the Group from its internal resources.

2.3 The adjustment reflects the capital contribution made by the Vendor (on behalf of the 2009 Target HK) of approximately RMB1,040,000 (equivalent to approximately HK$1,190,000) to the 2009 Target PRC.

2.4 The adjustment reflects the acquisition of sale loan (being all obligations, liabilities and debts owing or incurred by 2009 Target BVI to the vendor on or at any time prior to the completion of the 2009 Acquisition), as if the 2009 Acquisition had been completed at the date reported on.

2.5 The adjustment reflects:

(i) elimination of the share capital and pre-acquisition reserves of the the 2009 Target BVI, the 2009 Target HK and the 2009 Target PRC (collectivity refer to the "2009 Traget Group"), as if the 2009 Acquisition had been completed at the date reported on; and

(ii) recognition of 35% minority interests of the 2009 Target PRC.

For the purpose of the preparation of the unaudited pro forma consolidated balance sheet, it has been assumed that:

(i) the fair value of the identifiable assets and liabilities of the 2009 Target BVI as at 31 March 2009 approximated their carrying amounts;

(ii) the fair value of the identifiable assets and liabilities of the 2009 Target HK as at 31 March 2009 approximated their carrying amounts;

(iii) The registered capital of the 2009 Target PRC had been fully contributed at the date reported on.

(iv) except for the exploration and evaluation assets as mentioned in note (v) below, the fair value of the identifiable assets and liabilities of the 2009 Target PRC as at 31 March 2009 approximated their carrying amounts.

(v) there is an adjustment of fair value of the exploration and evaluation assets of the 2009 Target PRC of approximately HK$634,664,000, which represented the sum of (i) the total costs of the 2009 Acquisition (being the final consideration of approximately HK$409,091,000 and the estimated costs directly attributable to the 2009 Acquisition of approximately HK$2,800,000); and (ii) the 35% minority interests of the 2009 Target PRC of approximately HK$224,333,000, less (i) the sale loan of approximately HK$1,219,000; and (ii) the net fair value of the identifiable assets and liabilities of the 2009 Target Group recognized. The amount of the 35% minority interests of the 2009 Target PRC of approximately HK$224,333,000 had been calculated at the 35% interest in the net fair value of the identifiable assets and liabilities of the 2009 Target PRC acquired (after taking into account of the adjustment of fair value of the 2009 Target PRC's exploration and evaluation assets of approximately HK$634,664,000 and the assumption that additional registered capital of an aggregated amount of approximately HK$5,920,000 had been fully contributed).

On completion of the 2009 Acquisition, the fair value of the consideration and the net identifiable assets and liabilities of the 2009 Target Group will have to be assessed. Since the actual fair values of the assets, liabilities and contingent liabilities of the 2009 Target Group on completion of the 2009 Acquisition would be different from their estimated fair values used in the preparation of the unaudited pro forma consolidated balance sheet presented above, the actual financial position arising from the 2009 Acquisition might be materially different from the financial position.

3. PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP

	The Group for the year ended 31 March 2009	The 2009 Target BVI for the year ended 31 December 2008	The 2009 Target HK for the period ended 31 December 2008	The 2009 Target PRC for the year ended 31 December 2008		Pro forma adjustments		Pro forma 2009 Enlarged Group for the year ended 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					Notes 1.1 & 1.2	*Note 3.1*	*Note 3.2*	
Operating activities								
Loss before tax	(9,607)	(16)	(6)	(91)	(6,606)			(16,326)
Adjustments for:								
Finance costs	40	–	–	–	6,606			6,646
Interest income	(1,321)	–	–	(1)				(1,322)
Depreciation	293	–	–	–				293
Equity-settled share-based payments expenses	1,560	–	–	–				1,560
Operating cash flows before movements in working capital	(9,035)	(16)	(6)	(92)				(9,149)
Trade and other receivables	(59,167)	–	–	(1)				(59,168)

	The Group for the year ended 31 March 2009	**The 2009 Target BVI for the year ended 31 December 2008**	**The 2009 Target HK for the period ended 31 December 2008**	**The 2009 Target PRC for the year ended 31 December 2008**		**Pro forma adjustments**		**Pro forma 2009 Enlarged Group for the year ended 31 March 2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					Notes 1.1 & 1.2	*Note 3.1*	*Note 3.2*	
Amount due from a shareholder	–	–	–	73				73
Amounts due from minority shareholders	733	–	–	–				733
Amount due to a director	–	16	7	–				23
Amount due to a shareholder	–	–	–	11				11
Trade and other payables	15,562	–	–	3				15,565
Cash (used in)/ generated by operations	(51,907)	–	1	(6)				(51,912)
Interest received	1,321	–	–	1				1,322
Net cash (used in)/ generated by operating activities	(50,586)	–	1	(5)				(50,590)
Investing activities								
Payment of the estimated costs directly attributable to the Acquisition	–	–	–	–		(2,800)		(2,800)
Cash and cash equivalents of the Target Group acquired	–	–	–	–			443	443
Purchase of property, plant and equipment	(29)	–	–	–				(29)
Exploration and evaluation costs paid	–	–	–	(327)				(327)
Net cash used in investing activities	(29)	–	–	(327)				(2,713)

	The Group for the year ended 31 March 2009	The 2009 Target BVI for the year ended 31 December 2008	The 2009 Target HK for the period ended 31 December 2008	The 2009 Target PRC for the year ended 31 December 2008		Pro forma adjustments		Pro forma 2009 Enlarged Group for the year ended 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					Notes 1.1 & 1.2	*Note 3.1*	*Note 3.2*	
Financing activities								
Proceeds from issue of ordinary shares	9,123	–	–	–				9,123
Capital repayment of hire purchase obligations	(186)	–	–	–				(186)
Interest paid	(40)	–	–	–	(4,091)			(4,131)
Net cash generated by financing activities	8,897	–	–	–				4,806
Net (decrease)/increase in cash and cash equivalents	(41,718)	–	1	(332)				(48,497)
Cash and cash equivalents at the beginning of the financial year/period	270,413	–	–	443			(443)	270,413
Effect of foreign exchange rate changes	1,537	–	–	31				1,568
Cash and cash equivalents at the end of the financial year/period	230,232	–	1	142				223,484

Notes to the unaudited pro forma consolidated cash flow statement of the 2009 Enlarged Group:

3.1 The adjustment reflects the payment of the estimated costs directly attributable to the 2009 Acquisition of approximately HK$2,800,000 by the Group from its internal resources. This adjustment is not expected to have a continuing effect on the 2009 Enlarged Group.

3.2 The adjustment is made to show the opening balance of cash and cash equivalents of the 2009 Target Group acquired of approximately HK$443,000 as part of the cash flow effect from the 2009 Acquisition under investing activities, as if the 2009 Acquisition had been completed at the commencement of the period reported on. This adjustment is not expected to have a continuing effect on the 2009 Enlarged Group.

Since the actual dates of payment of the cash consideration for the 2009 Acquisition and the estimated costs directly attributable to the 2009 Acquisition would be different from the assumptions used in the preparation of the unaudited pro forma consolidated cash flow statement presented above, the actual timing of cash flows arising from the 2009 Acquisition might be materially different from the timing of cash flows.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with respect to the Group. The information contained herein relating to the Group has been supplied by the Directors, who collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular the omission of which would make any statement herein misleading insofar as it relates to the Group.

2. SHARE CAPITAL

The authorized and issued share capital of the Company as at the Latest Practicable Date were as follows:

Authorised:		*HK$*
20,000,000,000	Shares of HK$0.01 each	200,000,000
Issued and fully paid or credited as fully paid:		
6,759,844,971	Shares in issue as at the Latest Practicable Date	67,598,449.71
6,759,844,971	Shares of HK$0.01 each	67,598,449.71

All the issued Shares should rank pari passu in all aspects, including all rights as to dividend, voting and interest in capital, among themselves.

3. DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES UNDERLYING SHARES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors were deemed or taken to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code (the "Model Code") for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules were as follows:–

(i) Interests and short positions in shares of the Company ("Shares")

	Capacity	Number of ordinary Shares *(Note 1)*	Approximate percentage of total issued Shares *(Note 2)*
Executive Directors:			
Leung Ngai Man	Interest of a controlled corporation	163,550,000 (L) *(Note 3)*	2.42
	Beneficial owner	1,954,931,813 *(Note 4)*	28.92
Wong Wa Tak	Interest of a controlled corporation	1,600,000 (L) *(Note 5)*	0.02

Notes:

1. The letter "L" represents the Director's long position in the Shares of the Company.

2. This percentage is calculated on the basis of 6,759,844,971 Shares in issue as at the Latest Practicable Date but does not take into account of any Shares which may fall to be allotted and issued upon the exercise of any options or warrants or convertible bonds which remained outstanding as at the Latest Practicable Date.

3. These 163,550,000 Shares were held and beneficially owned by Climax Park Limited, a company incorporated in the British Virgin Islands and wholly owned by Leung Ngai Man. Under the SFO, Leung Ngai Man was deemed to be interested in these 163,550,000 Shares.

4. These 1,954,931,813 Shares were attributable to Leung Ngai Man. Among these shares, (a) 1,783,381,813 Shares were beneficially owned by Leung Ngai Man, of which 1,780,451,813 Shares were registered in the name of Kingston Finance Limited; (b) 8 million Shares represented underlying Shares for which Mr. Leung was entitled to subscribe upon exercise of certain options granted to him under the Company's Share Option Scheme; and (c) 163,550,000 Shares were beneficially owned by Climax Mark Limited which was solely owned by Mr. Leung.

5. These 1,600,000 Shares were held and beneficially owned by Master Hill Development Ltd., a company incorporated in Hong Kong with 50% of its shareholdings held and beneficially owned by Wong Wa Tak. Under the SFO, Wong Wa Tak was deemed to be interested in these 1,600,000 Shares held by Master Hill Development Ltd.

(ii) Interests and short positions in underlying Shares

Name	Capacity	Number of underlying Shares	Approximate percentage of total issued Shares *(Note 1)*
Leung Ngai Man	Beneficial owner	8,000,000 *(Note 2)*	0.12
Yeung Kit	Beneficial owner	6,400,000 *(Note 3)*	0.09
Wong Wa Tak	Interest of a controlled corporation	3,000,000 *(Note 4)*	0.04
Chan Sing Fai	Beneficial owner	800,000 *(Note 5)*	0.01
Cai Wei Lun	Beneficial owner	3,400,000 *(Note 6)*	0.05
Sung Kin Man	Beneficial owner	10,000,000 *(Note 7)*	0.15

Notes:

1. This percentage is calculated on the basis of 6,759,844,971 Shares in issue as at the Latest Practicable Date but does not take into account of any Shares which may fall to be allotted and issued upon the exercise of any options or warrants or convertible bonds which remained outstanding as at the Latest Practicable Date.

2. Share options carrying rights to subscribe for 8,000,000 Shares were granted to Leung Ngai Man on 3 January 2005 pursuant to the share option scheme.

3. Share options carrying rights to subscribe for 1,400,000 and 6,600,000 Shares were granted to Yeung Kit on 1 November 2004 and 12 January 2005 respectively pursuant to the share option scheme. Yeung Kit exercised 1,600,000 share options on 7 February 2006 and as at the Latest Practicable Date, he had 6,400,000 outstanding share options.

4. Share options carrying rights to subscribe for 7,000,000 Shares were granted to Master Hill Development Ltd. on 29 November 2004 pursuant to the share option scheme. Master Hill Development Ltd. exercised 4,000,000 share options on 8 February 2006 and as at 30 September 2009, it had 3,000,000 outstanding share options. 50% of the shareholdings of Master Hill Development Ltd. was held and beneficially owned by Wong Wa Tak. Under the SFO, Wong Wa Tak was deemed to be interested in these 3,000,000 share options held by Master Hill Development Ltd.

5. Share options carrying rights to subscribe for 800,000 Shares were granted to Chan Sing Fai on 1 November 2004 pursuant to the share option scheme.

6. Share options carrying rights to subscribe for 3,400,000 Shares were granted to Cai Wei Lun on 8 May 2006 pursuant to the share option scheme.

7. Share options carrying rights to subscribe for 10,000,000 Shares were granted to Sung Kin Man on 4 May 2010 pursuant to the share option scheme.

Save as disclosed above and other than certain nominee shares in subsidiaries held by certain Directors in trust for the Group, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(iii) Substantial Shareholders And Other Persons' Interests And Short Positions In Shares And underlying shares

As at the Latest Practicable Date, the interests or short positions of persons, other than a Director or chief executive of the Company, in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholder	**Capacity**	**Number of ordinary Shares** *(Note 1)*	**Approximate percentage of shareholding** *(Note 2)*
Climax Park Limited	Beneficial owner *(Note 3)*	163,550,000 (L)	2.42
Kingston Finance Limited	Holder of security interest *(Note 4)*	1,780,451,813	26.34
FRM LLC	Investment manager *(Note 5)*	431,670,000 (L)	6.39
Invesco Hong Kong Limited (in its capacity as manager/ advisor of various accounts)	Investment manager	368,530,000 (L)	5.45

Notes:

1. The letter "L" represents the entity's long position in the Shares of the Company.

2. This percentage is calculated on the basis of 6,759,844,971 Shares in issue as at the Latest Practicable Date but does not take into account of any Shares which may fall to be allotted and issued upon the exercise of any options or warrants or convertible bonds which remained outstanding as at the Latest Practicable Date.

3. Climax Park Limited is a company incorporated in the British Virgin Islands with limited liability and wholly owned by Mr. Leung Ngai Man, the chairman and an executive director of the Company.

4. Kingston Finance Limited had a security interest in these Shares. Kingston Finance Limited was a wholly owned subsidiary of Ample Cheer Limited which in turn was an 80% equity-owned subsidiary of Best Forth Limited which in turn was solely owned by CHU Yuet Wah.

5. Among the above Shares, 193,280,000 Shares were attributable to Fidelity Management & Research Company and 238,390,000 Shares were attributable to Fidelity Management Trust Company, Pyramis Global Advisors LLC.

Save as disclosed above, as at the Latest Practicable Date, no person, other than the Directors whose interests are set out in the section headed "Directors' Interests and Short Positions in Shares and Underlying Shares" above, had interest or short position in the Shares or underlying Shares of the Company that was required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

4. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in ordinary course of business of the Enlarged Group, have been entered into by the members of the Enlarged Group within two years preceding the date of this circular and are, or maybe, material:

(a) the Acquisition Agreement;

(b) the Framework Agreement;

(c) the acquisition agreement dated 17 April 2009 and entered into between Sino Prosper (States Gold) Investments Limited (a wholly-owned subsidiary of the Group) as purchaser and Mr. Leung as vendor for the acquisition of Nice Think Group Limited, a company incorporated in the British Virgin Islands ("Nice Think"), and the obligations, liabilities and debts owing by Nice Think to Mr. Leung at a total consideration of RMB360 million;

(d) the disposal agreement dated 10 February 2010 and entered into between Mr. Leung as purchaser and Sino Prosper Group Limited (a wholly-owned subsidiary of the Company) as vendor for the proposed disposal of, among others, the entire issued share capital of Sino Prosper Resources Limited (a wholly-owned subsidiary of the Company), and the entirety of the face value of the loans outstanding as at completion of the said disposal agreement made by or on behalf of Mr. Leung to Sino Prosper Resources Limited at the purchase price of approximately RMB5,280,000;

(e) the conditional placing agreement dated 12 March 2010 and entered into between the Company and Samsung Securities (Asia) Limited as placing agent for the proposed placing of up to 3,600 million new shares of HK$0.01 each in the capital of the Company at a placing price at not less than HK$0.10 new placing share;

(f) a supplemental agreement dated 23 March 2010 and entered into between the Company and Samsung Securities (Asia) Limited in relation to the placing price under the agreement as referred to in (e);

(g) the subscription agreement dated 14 October 2009 and entered into between Mr. Leung as subscriber and the Company in respect of the subscription by Mr. Lung for up to a total of 342,270,000 shares of HK$0.01 each in the capital of the Company at a subscription price of HK$0.25 per subscription share;

(h) the conditional placing agreement dated 14 October 2009 and entered into between Mr. Leung as the vendor, the Company and DBS Asia Capital Limited, as the placing agent, in respect of the placing of up to 342,270,000 shares of HK$0.01 each in the capital of the Company at a placing price at HK$0.25 per placing share;

(i) the capital increase and subscription agreement dated 23 March 2009 and entered into between Victor Bright Investment Limited as subscriber and Gao Li Yan and Song Yang for the proposed acquisition of 65% interests in 黑龍江中誼偉業經貿有限公司 (Heilongjiang Zhongyi Weiye Economic & Trade Co., Ltd.) at a total subscription price of RMB5.2 million;

(j) the articles of association of 黑龍江中誼偉業經貿有限公司 (Heilongjiang Zhongyi Weiye Economic & Trade Co., Ltd.) dated 23 March 2009 entered into between Victor Bright Investment Limited, Gao Li Yan and Song Yang;

(k) the acquisition agreement dated 10 June 2008 and entered into between Sino Minerals Investment Limited (a wholly-owned subsidiary of the Company) as purchaser and Mr. Leung as vendor for the proposed acquisition of, among others, the entire issued share capital in, and the shareholder's loan to, Agortex Development Limited at a total acquisition price of RMB230 million;

(l) a supplemental agreement dated 27 August 2008 and entered into between Sino Minerals Investment Limited and Mr. Leung in relation to the agreement as referred to in (k) above;

(m) a supplemental agreement dated 9 October 2008 and entered into between Sino Minerals Investment Limited and Mr. Leung in relation to the extension of the long stop date under the agreement as referred to in (k) above to 31 March 2009;

(n) a supplemental agreement dated 27 February 2009 and entered into between Sino Minerals Investment Limited and Mr. Leung in relation to a further extension of the long stop date under the agreement as referred to in (k) above to 31 December 2009;

(o) a termination deed dated 11 May 2009 and entered into between Sino Minerals Investment Limited and Mr. Leung in relation to the termination of the agreements as referred to in (k) to (n) above;

(p) the conditional placing agreement dated 15 October 2008 and entered into between the Company and Cinda International Capital Limited as placing agent for the proposed placing of up to 257,230,000 new Shares at a subscription price of HK$0.033 per Share;

(q) an extension agreement dated 25 November 2008 and entered into between the Company and Cinda International Capital Limited as placing agent in relation to the extension of the long stop date under the agreement as referred to in (p) above to 28 February 2009;

(r) the conditional placing agreement dated 21 May 2008 and entered into between the Company and Cinda International Capital Limited as placing agent for the proposed placing of up to 257,230,000 new Shares at a subscription price of HK$0.125 per Share;

(s) an extension agreement dated 20 June 2008 and entered into between the Company and Cinda International Capital Limited as placing agent in relation to the extension of the long stop date under the agreement as referred to in (r) above to 11 July 2008;

(t) an extension agreement dated 11 July 2008 and entered into between the Company and Cinda International Capital Limited as placing agent in relation to the extension of the long stop date under the agreement as referred to in (r) above to 1 August 2008;

(u) an extension agreement dated 1 August 2008 and entered into between the Company and Cinda International Capital Limited as placing agent in relation to the extension of the long stop date under the agreement as referred to in (r) above to 1 September 2008;

(v) an extension agreement dated 1 September 2008 and entered into between the Company and Cinda International Capital Limited as placing agent in relation to the extension of the long stop date under the agreement as referred to in (r) above to 15 October 2008;

(w) an acquisition agreement dated 17 May 2010 and entered into between (i)Victor Bright Investment Limited (an indirect wholly-owned subsidiary of the Company, as purchaser) on the one part and (ii) Ms. Gao Liyan (高麗艷) and Mr. Song Yang (宋陽) (as vendors) on the other part, for the proposed acquisition of an aggregate of 27% equity interest in 黑龍江中誼偉業經貿有限公司 (Heilongjiang Zhongyi Weiye Economic & Trade Co., Ltd., which is an indirect non-wholly owned subsidiary of the Company), at a consideration of RMB24 million (subject to adjustment in accordance with the terms of such agreement), and it is contemplated that upon completion of such agreement, the Group will be solely responsible for contributing additional registered capital of RMB44.3 million of the target company, but notwithstanding such capital contribution, the attributable profit of the target company will be shared by Ms. Gao Liyan (高麗艷) and the Group in the proportion of 8% and 92% respectively.

5. MATERIAL ADVERSE CHANGES

The Directors confirm there are no material adverse changes in the financial and trading position of the Group since 31 March 2009, the date of which the latest audited financial statements of the Group were made up.

6. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, Mr Leung Ngai Man (the Chairman of the Board, an executive Director and a substantial Shareholder) was interested in about 16.27% issued share capital in China Metal Resources Holdings Limited (stock code: 8071) ("CMR Holdings"). One of the principal activities of CMR Holdings and its subsidiaries is exploration of mining resources business in the PRC, which is in competition or potential competition with the business to be carried on by the Group after completion of the Acquisition (if so completed).

Save as disclosed above, during the year ended 31 March 2010 and up to the date of this circular, no Director and his associates are considered to have an interest in a business which completes or is likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses of which the Directors were nominated and appointed as directors and/or senior management to represent the interests of the Company and/or the Group.

7. DIRECTORS' INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or were proposed to be acquired, or disposed of by, or leased to any member of Enlarged Group since 31 March 2009, the date of which the latest audited financial statements of the Group were made up.

8. DIRECTORS' INTERESTS IN CONTRACTS

Details of the related party transactions are set out in note 32 to the financial statements of the Group for the year ended 31 March 2009 in Appendix I to this circular.

On 10 June 2008, Sino Prosper Minerals Investment Limited, a wholly-owned subsidiary of the Group, entered into an acquisition agreement ("2008 Acquisition Agreement") (and supplemented by a supplemental agreement dated 27 August 2008) with Mr. Leung, an executive Director and a substantial shareholder of the Company, for the acquisition of, amongst others, Agortex Development Limited, at a total consideration of RMB230 million (equivalent to HK$258 million). The proposed acquisition of Agortex Development Limited was subsequently terminated by a termination deed dated 11 May 2009 and made between the same parties. Please refer to the Company's announcements dated 19 September 2008 and 11 May 2009 respectively.

On 17 April 2009, Sino Prosper (States Gold) Investment Limited (the "Purchaser SG"), a wholly-owned subsidiary of the Group, entered into an acquisition agreement ("2009 Acquisition Agreement") with Mr. Leung for the acquisition ("2009 Acquisition") of Nice Think Group Limited, a company incorporated in the British Virgin Islands ("Nice Think"), and the obligations, liabilities and debts owing by Nice Think to Mr. Leung on or prior to completion of the 2009 Acquisition at a total consideration of RMB360 million (equivalent to approximately HK$409.1 million) (after adjustment). The consideration of RMB120 million (equivalent to approximately HK$136.4 million) is agreed to be settled by Purchaser SG procuring the Company to issue convertible bonds to the Vendor and the remaining consideration of RMB240 million (equivalent to approximately HK$272.7 million) is agreed to be settled by Purchaser SG (or the Company) issuing promissory note to Mr. Leung.

On 10 February 2010, Sino Prosper Group Limited (a wholly-owned subsidiary of the Company) entered into a disposal agreement ("2010 Disposal Agreement") with Mr. Leung for the disposal of the entire equity interest in (and the related shareholder's loans to) Sino Prosper Resources Limited at a total consideration of RMB5,280,000 (equivalent to about HK$6,000,000 as at such date of agreement). At the time of entering into the 2010 Disposal Agreement, Sino Prosper Resources Limited was the beneficial owner of 65% equity interest in PR Sino Prosper Indocarbon. For further details, please refer to the Company's announcement dated 10 February 2010.

Save as disclosed above, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Enlarged Group to which the Company or any of its subsidiaries or any of the Target Group was a party as at the Latest Practicable Date.

9. DIRECTORS' SERVICE CONTRACTS

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

10. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was or is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was or is known to the Directors to be pending or threatened by or against any members of the Enlarged Group.

11. EXPERTS' QUALIFICATION AND CONSENT

The following are the qualifications of the experts who have given their opinions and advice which are included in this circular:

Name	Qualification
Cinda International Capital Limited	A corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants
SRK Consulting China Ltd.	Independent technical adviser
Norton Appraisals Limited	Independent valuer

As at the Latest Practicable Date, none of the above experts has any shareholding, directly or indirectly, in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

As at the Latest Practicable Date, none of the above experts have any interest, direct or indirect, in the promotion of, or in any assets which had been within the two years immediately preceding the issue of this circular acquired or disposed of by or leased to, any member of the Enlarged Group.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion or report in the form and context in which they are included.

None of the above experts had any direct or indirect interest in any assets which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or were proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 March 2009, the date to which the latest published audited financial statements of the Group were made up.

12. GENERAL

(a) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(b) The head office and principal office of business of the Company in Hong Kong is at Units 1702-04, 17/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.

(c) The branch share registrar of the Company in Hong Kong is Trior Secretaries Limited situated at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) The secretary of the Company is Ms. Chiu Ngan Ling Annie, a fellow member of The Association of Chartered Certified Accountants, an associate member of Hong Kong Instititure of Certified Public Accountants, a member of Hong Kong Securities Institute and a Certified Public Accountant in Hong Kong.

(e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Units 1702-04, 17/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong during normal business hours from the date of this circular up to and including 17 June 2010.

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for each of the three years ended 31 March 2009 and the interim report of the Company for the six months ended 30 September 2009;

(c) the accountants' report prepared by HLB Hodgson Impey Cheng on the Target BVI Group and PRC Company, the text of which is set out in Appendix IIA and IIB to this circular;

(d) the letter prepared by HLB Hodgson Impey Cheng on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(e) the technical report prepared by SRK Consulting China Limited, the text of which is set out in Appendix IV to this circular;

(f) the valuation report on the Target Mine prepared by Norton Appraisals Limited, the text of which is set out in Appendix V to this circular;

(g) the reports on forecasts underlying the valuation on the Target Mine prepared by HLB Hodgson Impey Cheng and Cinda International Capital Limited, the text of which is set out in Appendix VI to this circular;

(h) the letters of consent referred to under the paragraph headed "Experts' qualification and consent" in this Appendix;

(i) a copy of each of the material contracts referred to in the paragraph headed "Material contracts" in this Appendix;

(j) the service contracts referred to in the paragraph headed "Directors' Service Contracts" in this Appendix; and

(k) the circular of the Company dated 31 August 2009 in relation to a very substantial acquisition and connected transaction.

SINO PROSPER STATE GOLD RESOURCES HOLDINGS LIMITED
中盈國金資源控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 766)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Sino Prosper State Gold Resources Holdings Limited ("**Company**") will be convened at Units 1702-04, 17/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong at 10:00 a.m. on Thursday, 17 June 2010, for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution (with or without modifications):

"**THAT**:

(a) the acquisition agreement ("**Acquisition Agreement**") dated 23 January 2010 and entered into between (i) Sino Prosper Mineral Products Limited, a wholly-owned subsidiary of the Company as purchaser; and (ii) and Hong Guang (洪光) ("**Mr. Hong**"), as vendor, in relation to the acquisition ("**Acquisition**") of the equity issued share capital of Favour South Limited and all obligations, liabilities and debts owing or incurred by Favour South Limited to Mr. Hong on or at any time prior to the completion of the Acquisition (copy of which Acquisition Agreement has been produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification), as set out in the circular ("**Circular**") of the Company dated 31 May 2010 (copy of which Circular has been produced to the meeting marked "B" and signed by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereby be and they are hereby approved; and

(b) the directors of the Company ("**Directors**") be and are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps which, in the opinion of the Directors, are necessary, appropriate, desirable or expedient to give effect to or implement the Acquisition and the terms of the Acquisition Agreement and any of the transactions contemplated under the Acquisition Agreement and to agree to such variation, amendments or waiver or matters relating thereto as are, in the opinion of the Directors, in the interest of the Company and its shareholders as a whole."

By order of the Board
Sino Prosper State Gold Resources Holdings Limited
Sung Kin Man
Chief Executive Officer & Executive Director

Hong Kong, 31 May 2010

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

Head office and principal place of business in Hong Kong:
Units 1702-04, 17/F
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

Notes:

(1) Any member of the Company entitled to attend and vote at the above meeting convened by this notice is entitled to appoint one or, if he is the holder of two or more shares, more than one proxy to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not to be a Shareholder.

(2) To be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited at the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 48 hours before the time for holding the above meeting or any adjournment thereof.

(3) Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the above meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.

(4) In the case of joint holders of a Share, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto to if more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

As at the date of this notice, the executive Directors of the Company are Mr. Leung Ngai Man, Mr. Sung Kin Man, Mr. Yeung Kit and Mr. Wong Wa Tak, Mr. Ng Kwok Chu, Winfield, and the independent non-executive Directors of the Company are Mr. Chan Sing Fai, Mr. Cai Wei Lun and Dr. Leung Wai Cheung.