THIS CIRCULAR 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 stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Metal Resources Holdings Limited ("**Company**"), 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 or transfer was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

CHINA METAL RESOURCES HOLDINGS LIMITED
中國金屬資源控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8071)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION, PROPOSED CONTINUING CONNECTED TRANSACTION, SPECIFIC MANDATE TO ISSUE NEW SHARES AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company

Hantec Capital Limited

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Access Capital

This circular, for which the directors of the Company ("**Directors**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market ("**GEM**") of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this circular is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this circular misleading; and (iii) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

A notice convening the extraordinary general meeting of the Company ("**EGM**") to be held at Unit 1006, 10th Floor, Tower One Lippo Centre, No. 89 Queensway, Hong Kong on 30 May 2008 at 11:00 a.m. is set out on pages EGM-1 to EGM-4 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same as soon as possible and in any event not later than 48 hours before the time of the EGM or any adjournment thereof to the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

This circular will remain on the "Latest Company Announcements" page of the GEM website for at least seven (7) days from the date of its publication.

13 May 2008

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

CONTENTS

In this circular, the following expressions shall, unless the context requires otherwise, have the following meanings:

"Acquisition"	the acquisition of the Sale Share and the Sale Loan pursuant to the terms and conditions of the Agreement
"Agreement"	the agreement dated 4 January 2008 and entered into between the Purchaser and the Vendor in respect of the Acquisition
"associates(s)"	has the meaning ascribed thereto in the GEM Listing Rules
"Board"	the board of Directors
"Bondholder"	the holder 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
"CJV"	雲南西部礦業有限公司 (Yunnan Xibu Mining Company Limited*), a Chinese foreign co-operative joint venture company established under the PRC laws on 14 May 2004
"Company"	China Metal Resources Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Agreement
"Completion Date"	the date of Completion, being the date falling two business days after all the conditions of the 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 GEM Listing Rules
"Consideration"	the consideration for the Acquisition, being HK$1,800 million
"Consideration Shares"	up to 2,957,575,000 new Shares that may be allotted and issued by the Company at the Issue Price as partial consideration for the Acquisition

"Continuing Connected Transaction"	the continuing connected transaction to be constituted by the transactions contemplated under the Supply Agreement
"Conversion Price"	the initial conversion price of HK$0.40 per Conversion Share, pursuant to the terms of the Convertible Bonds
"Conversion Shares"	the Shares to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds
"Convertible Bonds"	the convertible bonds in the principal amount of up to HK$1,561.74 million, that may be issued by the Company in favour of the Vendor as partial consideration for the Acquisition
"Deposit"	the deposit of HK$65 million paid by the Purchaser to the Vendor on the date of the Agreement, as deposit and partial consideration for the Acquisition
"Directors"	the directors of the Company
"EGM"	the extraordinary general meeting to be held at Unit 1006, 10th Floor, Tower One Lippo Centre, No. 89 Queensway, Hong Kong at 11:00 a.m. on 30 May 2008 to approve the various matters as set out in the notice of the EGM, a copy of which is set out on pages EGM-1 to EGM-4 of this circular
"Exploration Area"	an area of approximately 113.96 sq. km. of the gold mining site located at Luoxi City, Yunnan Province, the PRC
"Enlarged Group"	the Group following completion of the Acquisition
"Fund Raising Exercise"	any fund raising exercise, including by way of placing of new shares or issue of other securities to investors who are third party independent of the Company and its connected persons (as defined in the GEM Listing Rules), excluding by way of rights issue or open offer, to be conducted by the Company to finance the Consideration
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM

"Geology Reports"	a geology report entitled "Yunnan Province Luxi City, Mt. Santai, Mengdan Area Gold Mine General Investigation Report" prepared by the PRC Partner in 2005, and a geology report entitled "Yunnan Province Luxi County, Upper Manggang Area Gold Mine General Investigation Report" prepared by the Yunnan Province Nuclear Engineering Industry Second Sub-Team, a subsidiary of the PRC Partner, in 2006
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company, comprising all the independent non-executive Directors
"Independent Financial Adviser"	Access Capital Limited, a corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee in relation to the relevant transactions set out in this circular
"Independent Shareholders"	Shareholders other than the Vendor and his associates, and Ms. Wu Wei Hua
"Issue Price"	the issue price of HK$0.40 per Consideration Share as agreed between the Vendor and the Purchaser
"Latest Practicable Date"	8 May 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"Mine"	an area of 0.43 sq.km. of a gold mining site located at Luoxi City, Yunnan Province, the PRC which is subject to a mining operation permit
"Mr. Leung" or "Vendor"	Mr. Leung Ngai Man, being the vendor under the Agreement, a Director and a connected person of the Company
"Ore Supplier"	the supplier named in the Supply Agreement (i.e. 潞西市核工業209芒市金礦 (Luxi City Nuckar Industry 209 Mangshi Gold Mine*)) and is a company controlled by the PRC Partner

"Placing Mandate"	the specific mandate to be sought at the EGM for the allotment and issue of not more than 6,133,000,000 Shares at a price of not less than HK$0.10 per Share (in any event, not more than 20% discount (if any) to the (i) average closing price of the Shares for the five consecutive trading days before the date of the relevant placing agreement; or (ii) the closing price of the Shares for the last trading day before the date of the relevant placing agreement, whichever is higher) to parties independent of the Company and connected persons of the Company and its subsidiaries
"PRC"	the People's Republic of China which, for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Partner"	雲南省核工業209地質大隊 (Geological Brigade 209 of the Nuclear Industry of Yunnan Province*), the PRC partner to the CJV and a party independent of the Company and its connected persons
"Purchaser"	Greatest High Holdings Limited, a company incorporated in the BVI and a wholly-owned subsidiary of the Company and the purchaser named under the Agreement
"Sale Loan"	all obligations, liabilities and debts owing or incurred by the Target 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 Completion and as at the date of the Agreement and the Latest Practicable Date, amounted to HK$947,586.50 and HK$12,778,644.50 respectively
"Sale Share"	one ordinary share of nominal value US$1.00 in the issued share capital of the Target, representing the entire issued share capital of the Target
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	existing ordinary share(s) of HK$0.0005 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Shares

"Specific Mandate"	collectively, (i) the specific mandate sought to be granted by the Shareholders at the EGM to the Directors in relation to the issue and allotment of the Consideration Shares and the Conversion Shares and (ii) the Placing Mandate
"Speedy Well"	Speedy Well Investments Limited, a company incorporated in the British Virgin Islands and whose entire issued share capital is held by Mr. Leung
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiary"	China Mining Group Investment Limited, a company incorporated in Hong Kong and as at the Latest Practicable Date, wholly and beneficially owned by the Target
"Supply Agreement"	the supply agreement dated 19 December 2007 and entered into between the CJV and the Ore Supplier in respect of the supply of all the ore extracted from the Mine to the CJV
"Target"	China Nonferrous Metals Resources Investment Limited, a company incorporated in the BVI, and as at the Latest Practicable Date, wholly and beneficially owned by the Vendor
"Target Group"	collectively, the Target, the Subsidiary and the CJV
"HK$"	Hong Kong dollars
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States of America
"sq.km."	square kilometres
"%"	per cent.

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

For the purpose of this circular, unless otherwise specified, conversions of RMB and US$ into Hong Kong dollars are based on the approximate exchange rate of RMB0.95 to HK$1.00 and US$1.00 to HK$7.78.

CHINA METAL RESOURCES HOLDINGS LIMITED
中國金屬資源控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8071)

Executive Directors:
Leung Ngai Man *(Chairman)*
Ng Kwok Chu, Winfield
Wu Wei Hua

Independent non-executive Directors:
Leung Wai Cheung
Chan Sing Fai
Liu Jia Qing

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

Head office and principal place of business in Hong Kong:
Unit 1006, 10th Floor
Tower One Lippo Centre
No. 89 Queensway
Hong Kong

13 May 2008

To the Shareholders, and for information only, the holders of options and warrants of the Company

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION, PROPOSED CONTINUING CONNECTED TRANSACTION AND SPECIFIC MANDATE TO ISSUE NEW SHARES

INTRODUCTION

Reference is made to the announcement of the Company dated 23 January 2008 in which the Company announced that on 4 January 2008, the Purchaser, being a wholly-owned subsidiary of the Company, and the Vendor entered into the Agreement in relation to the Acquisition.

The purpose of this circular is to give you, among others, (i) further information regarding the Acquisition, the Continuing Connected Transaction and other information of the Group; (ii) the recommendation of the Independent Board Committee; (iii) the advice of the Independent Financial Adviser; and (iv) the notice of the EGM.

THE AGREEMENT

Date	:	4 January 2008 (the Agreement was entered into after trading hours)
Purchaser	:	Greatest High Holdings Limited, a wholly-owned subsidiary of the Company and an investment holding company
Vendor	:	Mr. Leung Ngai Man As at the Latest Practicable Date, the Vendor was the legal and beneficial owner of the entire issued share capital of the Target. The Target has an authorised capital of US$50,000 divided into 50,000 ordinary shares of US$1.00 each, of which one share has been issued and fully paid up and is beneficially owned by the Vendor. The Vendor is a connected person of the Company by virtue of him being a Director and a substantial Shareholder, interested in approximately 15.77% of the issued share capital of the Company as at the Latest Practicable Date.
Assets to be acquired	:	Pursuant to the Agreement, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Share (being the entire issued share capital of the Target) and the Sale Loan.

Consideration

Pursuant to the terms of the Agreement, the Consideration of HK$1,800 million shall be settled in the following manner: (i) on the date of the Agreement, an aggregate amount of HK$65 million was paid by the Purchaser to the Vendor as the Deposit and part of the Consideration; (ii) a sum equivalent to 90% of the net proceeds from the Fund Raising Exercise shall be payable by the Purchaser to the Vendor on Completion (the remaining 10% of such net proceeds will be retained as general working capital and all such general working capital will be used for the exploration work of the Target Group); (iii) in the event that the net proceeds obtained from item (ii) above are not sufficient to satisfy the remaining balance of the Consideration (being HK$1,735 million), the Purchaser shall procure the Company to allot and issue the Consideration Shares, credited as fully paid at the Issue Price, on Completion to the Vendor. Such Consideration Shares, together with the Shares beneficially owned by the Vendor at Completion shall not exceed 29% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares; and (iv) the balance of the Consideration, after the deduction of items (i), (ii) and (iii) above, shall be satisfied by the Purchaser procuring the Company to issue the Convertible Bonds to the Vendor on Completion.

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 value of the opportunity for the Group to gain access to the precious metals market in the PRC and to broaden the income base of the Group; (ii) the continuous growth in the market price of gold in recent years; (iii) the further business and growth potential of the CJV; (iv) the Geology Reports, which were prepared on the Exploration Area but do not state the amount of reserves in the Exploration Area; and (v) the expected value of the project of the CJV, comprising an ore supply portion and an exploration portion, to be not less than RMB3.6 billion.

In the event that the conditions precedent stated below are not fulfilled (or as the case may be, waived by the Purchaser) on or before 180 days after the date of the Agreement (i.e. before 3 July 2008) or such later date as the Vendor and the Purchaser may agree in writing, within 10 days after such date, the Vendor shall refund the Deposit, without interest, to the Purchaser.

In the event that the conditions precedent stated below are fulfilled (or as the case may be, waived by the Purchaser) on or before 180 days after the date of the Agreement (i.e. before 3 July 2008) or such later date as the Vendor and the Purchaser may agree in writing, but Completion does not take place as a result of the non-performance of the Purchaser, the Vendor has the right to forfeit the Deposit as liquidated damages.

In the event that the conditions precedent stated below are fulfilled (or as the case may be, waived by the Purchaser) on or before 180 days after the date of the Agreement (i.e. before 3 July 2008) or such later date as the Vendor and the Purchaser may agree in writing, but Completion does not take place other than as a result of the non-performance of the Purchaser, the Vendor shall refund the Deposit, without interest, to the Purchaser.

Conditions precedent

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

(a) all necessary governmental and other consents and approvals required to be obtained on the part of the Target Group, the Vendor and the Purchaser in respect of the Agreement and the transactions contemplated thereby;

(b) the Vendor's warranties contained in the Agreement remaining true and accurate in all respects and the Vendor having complied with all of its obligations under the Agreement;

(c) the GEM Listing Committee of the Stock Exchange granting listing of, and the permission to deal, in the Consideration Shares and the Conversion Shares;

(d) the passing by the Independent Shareholders at the EGM to approve the Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares to the Vendor at the Issue Price credited as fully paid, the issue of the Convertible Bonds and the Conversion Shares to the Vendor;

(e) 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 Agreement and the transactions contemplated thereby and the delivery to the Purchaser of a BVI legal opinion (in form and substance satisfactory to the Purchaser) from a BVI legal adviser appointed by the Purchaser in relation to the due incorporation and valid subsistence of the Target;

(f) the Purchaser being satisfied with the results of the due diligence review to be conducted on the assets, liabilities, operations and affairs and the feasibility of the business plan of the Target Group;

(g) the obtaining of a valuation report (in substance satisfactory to the Purchaser) from a valuer appointed by the Purchaser and showing the value of the project of the CJV, comprising an ore supply portion and an exploration portion, to be not less than RMB3.6 billion; and

(h) the completion of the Fund Raising Exercise.

The valuer appointed pursuant to condition (g) above is a third party independent of the Company and its connected persons. The valuation report prepared by such valuer is set out in Appendix IV to this circular.

The Purchaser has the right to waive all of the above conditions in part or in full, except for conditions numbered (a), (c) and (d). In the event that the above conditions are not fulfilled (or as the case may be, waived by the Purchaser) on or before 180 days after the date of the Agreement, (i.e. before 3 July 2008) or such later date as the Vendor and the Company may agree in writing, the Agreement shall cease and determine and neither party shall have any obligations towards each other. The Directors confirm that as at the Latest Practicable Date, none of the above conditions (except condition (g)) have been fulfilled and the Company has no intention to waive any of the above conditions which are capable of being waived. The Directors further consider that the approval of the Supply Agreement by the Independent Shareholders shall be obtained before Completion.

Completion

Completion shall take place at 4:00 p.m. on the Completion Date.

Upon Completion, the Target will become a wholly-owned subsidiary of the Company and the financial results of each of the Target, the Subsidiary and the CJV will be consolidated into the consolidated financial statements of the Company.

Upon Completion, the Vendor will undertake in favour of the Company that he and his associates will not become a controlling shareholder (within the meaning of the GEM Listing Rules) of the Company within 24 months after Completion.

SPECIFIC MANDATE TO ISSUE NEW SHARES

The Consideration Shares

The Consideration Shares will be issued at an issue price of HK$0.40 per Consideration Share, credited as fully paid. Such number of Consideration Shares will be issued to the Vendor which will result in the Vendor holding up to 29% of the issued share capital of the Company as at the Completion Date. The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares including the right to all dividends, distributions and other payments made or to be made, the record date for which falls on or after the date of such allotment and issue. Assuming there is no Fund Raising Exercise, the Consideration Shares would satisfy up to HK$173.26 million of the Consideration.

The Issue Price represents:

(i) a premium of approximately 2.56% over the closing price of HK$0.39 per Share as quoted on the Stock Exchange on 4 January 2008, being the date of the Agreement;

(ii) a premium of approximately 11.42% over the average of the closing prices of HK$0.359 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 4 January 2008, being the date of the Agreement;

(iii) a premium of approximately 14.78% over the average of the closing prices of HK$0.3485 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 4 January 2008, being the date of the Agreement; and

(iv) a premium of approximately 113.90% over the closing price of HK$0.187 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Consideration Shares will be allotted and issued on the Completion Date pursuant to the Specific Mandate to be sought at the EGM.

As at the Latest Practicable Date, there were 2,430,305,038 Shares in issue. As illustrated in the table set out under the paragraph headed "Changes in shareholding structure of the Company" below and based on the assumption set out therein, the maximum number of 2,957,575,000 Consideration Shares represent approximately 121.70% of the issued share capital of the Company as at the Latest Practicable Date and approximately 54.89% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

Application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Consideration Shares.

There is no provision in the Agreement which restricts the Vendor from disposing of the Consideration Shares.

The Convertible Bonds

The terms of the Convertible Bonds have been negotiated on an arm's length basis and the principal terms of which are summarised below:

Issuer	:	The Company
Principal amount	:	up to HK$1,561.74 million
Interest	:	Interest free
Transferability	:	the Convertible Bonds may be transferred or assigned in whole or in part by the Bondholder(s) to any person or company provided that where such transfer is made to a connected person of the Company, such transfer shall comply with the requirements (if any) of the Stock Exchange.
Maturity Date	:	5 years
Conversion rights	:	The Bondholder may convert the whole or part (in multiples of HK$100,000) of the principal amount of the Convertible Bonds into the Conversion Shares at the Conversion Price for the period commencing from the date of issue of the Convertible Bonds up to the close of business on the day falling seven days prior to the maturity date provided that no Convertible Bond may be converted, to the extent that following such conversion, the Bondholder and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in more than 29% of the entire issued Shares.
Early redemption	:	Upon occurrence of an event of default set out in the conditions of the Convertible Bonds, including among others, a sufficient number of authorised but unissued Shares of the Company is not available for the fulfilment of the obligations regarding the conversion of the Convertible Bonds, a breach of the provisions of the Convertible Bonds, breach of major terms of the Agreement and dissolution or winding up of the Company, Bondholder(s) may give written notice to the Company that the Convertible Bonds are immediately due and repayable. Upon any such notice being given to the Company, the Convertible Bonds will become due and repayable on the business day falling seven business days of the date of such notice at their principal amount.
Conversion Price	:	The Conversion Shares will be issued at an initial conversion price of HK$0.40 per Conversion Share, subject to adjustment upon the occurrence of a capitalisation issue, rights issue, subdivision or consolidation of Shares and other dilutive events, which adjustments shall be certified by the auditor of the Company or an approved merchant bank in such manner as it thinks fit.

Repayment	:	When the Convertible Bonds becomes due, the principal amount of the Convertible Bonds will be repaid by the Company to the Bondholder(s).
Ranking of the Conversion Shares	:	The Conversion Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Conversion Shares.
Ranking of the Convertible Bonds	:	The Convertible Bonds constitute direct, general, unconditional and unsecured obligations of the Company and rank pari passu and rateably without preference among themselves, and with other direct, unconditional, unsubordinated and unsecured obligations of the Company.
Voting	:	The Convertible Bonds do not confer any voting rights at any meetings of the Company.
Public float	:	The Company, at all times, shall use its reasonable endeavours to ensure that the relevant provisions as to the minimum public float requirement of the GEM Listing Rules are complied with. It will be a term of the Convertible Bonds that the Bondholder shall not exercise any of the conversion rights attaching to the Convertible Bonds, if following such exercise, the Company's minimum public float cannot be maintained.

The Conversion Price is equivalent to the Issue Price.

The Conversion Price was determined by the Purchaser and the Vendor on an arm's length basis with reference to the then prevailing market price of the Shares and the terms of the Convertible Bonds.

No application will be made by the Company for the listing of the Convertible Bonds. Application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

The issue of the Conversion Shares will be made pursuant to the Specific Mandate to be sought at the EGM. As illustrated in the table set out under the paragraph headed "Changes in shareholding structure of the Company" below and based on the assumption set out therein, the maximum number of Conversion Shares issuable under the Convertible Bonds is 3,904,350,000 if the initial conversion price of HK$0.40 per Conversion Share is not adjusted.

The Fund Raising Exercise

It is proposed that a fund raising exercise by issue of equity will be conducted to fund part of the Consideration. It is the plan of the Company to issue not more than 6,133,000,000 Shares, representing approximately 252.36% of the issued share capital of the Company as at the Latest Practicable Date and approximately 71.62% of the issued share capital of the Company as enlarged by the allotment and issue of such 6,133,000,000 Shares, at a price of not less than HK$0.10 per Share (in any event, not more than 20% discount (if any) to the (i) average closing price of the Shares for the five consecutive trading days before the date of the relevant placing agreement; or (ii) the closing price of the Shares for the last trading day before the date of the relevant placing agreement, whichever is higher) to parties independent of the Company and connected persons of the Company and its subsidiaries. The Placing Mandate will be sought at the EGM in this respect. The proposed minimum issue price under the Placing Mandate of HK$0.10 per Share represents:

(i) a discount of approximately 74.36% to the closing price of HK$0.39 per Share as quoted on the Stock Exchange on 4 January 2008, being the date of the Agreement;

(ii) a discount of approximately 72.14% to the average of the closing prices of HK$0.359 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 4 January 2008, being the date of the Agreement; and

(iii) a discount of approximately 46.52% to the closing price of HK$0.187 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The exact number of Shares to be issued under the Fund Raising Exercise, the actual issue price and other terms of the Fund Raising Exercise are subject to agreement(s) to be entered into between the Company and the placing agent(s) of the Company to be identified. The Company has contacted two potential placing agents and they have preliminarily indicated interest to act as the placing agent of the Company. As certain supporting information, such as the technical report and the valuation report will not be available for the placing agent(s) prior to the issue of this circular, it is difficult for the placing agent(s) to finalise their valuation on the Enlarged Group and the terms of the Fund Raising Exercise prior to the issue of this circular. In view of the volatility of the stock market, investors generally tend not to indicate their firm interest to the fund raising until the circular is issued because before then they would not have a clear idea when the requisite shareholders' meeting to approve the transaction could be held. Subject to the grant of the Placing Mandate at the EGM, it is expected that the Company will shortly after the grant of the Placing Mandate, negotiate and finalise the terms of the Fund Raising Exercise with one or more placing agents. Further announcement(s) will be made by the Company in this respect to update the Shareholders and the public and application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Shares which may fall to be allotted and issued under the Placing Mandate.

Assuming that 6,133,000,000 Shares will be issued under the Fund Raising Exercise and all such Shares will be issued at an issue price of HK$0.10 per Share, the gross proceeds of such Fund Raising Exercise are estimated to be HK$613,300,000. As stipulated in the Agreement, 90% of the net proceeds of the Fund Raising Exercise will be applied by the Company to fund part of the Consideration while it will retain 10% of such net proceeds for its general working capital use and all such general working capital will be used for the exploration work of the Target Group.

A resolution will be proposed to approve the Placing Mandate at the EGM and such resolution is conditional upon the passing of the resolution approving the Acquisition. The Placing Mandate shall expire on the earlier of (i) 31 December 2008; or (ii) the completion of the Acquisition. The obtaining of more than three months for the Placing Mandate is to give more time and flexibility to the Company to negotiate the terms of the Fund Raising Exercise and in the event the Company cannot arrive at an agreement with the placing agent(s) on the terms of the Fund Raising Exercise within a short period of time after the issue of the circular, the Company will not be required to spend additional time and cost to convene another shareholders' meeting to extend the Placing Mandate.

The expected dilution effect of the Fund Raising Exercise is set out in the paragraph headed "Changes in shareholding structure of the Company" below.

The Company has conducted the following equity fund raising exercises in the 12 months preceding the Latest Practicable Date:

Date of relevant agreement/ event	Nature of transaction	Purchaser	Net amount raised	Number of shares issued *(Note 1)*	Intended use of proceeds	Actual use of proceeds
13 April 2007	Placing of existing Shares and subscription of new Shares	Payton Place Limited	HK$6.4 million	13,566,960 shares of HK$0.01 each	(i) approximately HK$4 million for repayment of loans of the Group; and (ii) the balance of approximately HK$2.4 million for general working capital of the Group	approximately HK$4 million for repayment of loans of the Group and HK$2.4 million for general working capital of the Group
3 July 2007 *(Note 2)*	Placing of unlisted warrants	Mr. Li Ming Han and Mr Pan Chik	HK$200,000	N/A	general working capital of the Group	approximately HK$200,000 for general working capital of the Group
21 September 2007	Placing of existing Shares and subscription of new Shares	Public	HK$66.8 million	255,000,000 Shares	(i) approximately HK$18.8 million for repayment of loan of the Company; (ii) approximately HK$17.2 million for acquisition of office premises; and (iii) approximately HK$30.8 million as general working capital of the Group or for investments (not less than HK$20.0 million of which will be applied towards the possible investment in the non-ferrous metal mine as announced by the Company in its announcements dated 23 August 2007 and 3 October 2007) when such opportunities arise	(i) approximately HK$18.8 million for repayment of loan of the Company on 16 October 2007; (ii) approximately HK$17.2 million for acquisition of office premises in November 2007; and (iii) approximately HK$30.8 million will be retained as general working capital of the Group or for investments (not less than HK$20.0 million of which was utilised to fund the Acquisition)
23 October 2007	Placing of existing Shares and subscription of new Shares	Public	HK$30.5 million	112,695,840 Shares	approximately HK$30.5 million to fund the Acquisition	approximately HK$30.5 million was utilised to fund the Acquisition

Note: 1. An extraordinary general meeting of the Company was held on 22 August 2007, pursuant to which, among other matters, the subdivision of each of the existing issued and unissued Shares of HK$0.01 each in the share capital of the Company into 20 subdivided shares of HK$0.0005 each was approved pursuant to an ordinary resolution passed thereat ("**Share Subdivision**"). The Share Subdivision became effective on 23 August 2007.

2. As at the Latest Practicable Date, a total of 900,000 shares of HK$0.01 each and 142,499,998 Shares were allotted and issued upon the exercise of subscription rights attaching to the warrants. The intended and actual use of proceeds derived from the exercise of warrants of approximately HK$5,400 million were general working capital. The intended and actual use of proceeds of approximately HK$10,125 million were to finance the Acquisition. The intended use of the remaining of approximately HK$2,250 million is general working capital but had not been utilised as at the Latest Practicable Date.

INFORMATION ON THE TARGET AND THE EXPLORATION AREA

The Target

The Target is a company incorporated in the BVI and is wholly and beneficially owned by the Vendor. The Target is principally engaged in investment holding. The sole asset of the Target is the entire issued capital of the Subsidiary, which in turn owns 80% of the registered and paid up capital of the CJV. The Subsidiary's equity holding in the CJV was acquired by it from an independent third party at nil consideration but the Subsidiary assumed the obligation to pay up the outstanding registered capital of the CJV of US$1,510,000 in cash. The Subsidiary contributed US$1,510,000 to pay up the outstanding registered capital of the CJV in January 2008. As at the Latest Practicable Date, 20% of the registered and paid up capital of the CJV was owned by the PRC Partner. The registered capital and the total investment of the CJV are US$3,010,000 (equivalent to approximately HK$23,418,000) and US$3,344,400 (equivalent to approximately HK$26,019,000) respectively. As at the Latest Practicable Date, apart from Mr. Leung, Ms. Wu Wei Hua, an executive Director, is also a director of the CJV. Ms. Wu Wei Hua, being interested in the Acquisition and the Supply Agreement, is required to abstain from voting on the relevant resolutions.

The CJV is principally engaged in the exploration of mines in the PRC at permitted and authorised locations. It has commenced its business and carries out exploration work at the Exploration Area. Its main operations are in the PRC and it does not maintain any other principal establishment. The mining right in respect of the Mine is vested in the Ore Supplier with whom the CJV entered into the Supply Agreement for the supply of ore to the CJV for processing. However, the CJV has not conducted any processing of minerals in the past. As advised by the Vendor, as at the Latest Practicable Date, the CJV had made an application to the relevant PRC authorities to amend its principal activities for the inclusion of purchasing and processing of gold minerals, but the relevant approval had not be obtained from the relevant PRC authorities.

According to the audited financial statements of the Target Group prepared under the Hong Kong Financial Reporting Standards as set out in the accountants' report on the Target Group set out in Appendix IIA to this circular, the audited consolidated net profit of the Target Group from 30 March 2007 (being the incorporation date of the Target) to 31 December 2007 was approximately HK$8,793,000 and the consolidated audited net assets of the Target Group as at 31 December 2007 were approximately HK$11,229,000.

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 in consequence of the Acquisition.

The Exploration Area

The Exploration Area is located at Luoxi City, Dehong Dai and Jingpo Autonomous Prefecture, Yunan Province, the PRC (雲南省德宏傣族景頗族自治州潞西市). The Exploration Area which has an area of approximately 113.96 sq.km. and is subject to an exploration permit. Based on the information provided by the Vendor, the preliminary estimation of the potential resources of gold in the Exploration Area is approximately 60 metric tons to 80 metric tons.

As advised by the Vendor, the CJV is the holder of the exploration permit on the Exploration Area for a period of two years from 22 April 2008 to 22 April 2010, which licence was granted by the Department of Land and Resources of Yunnan Province, the PRC. With the exploration permit of the Exploration Area, the CJV is granted the right to carry out exploration work within the Exploration Area.

As advised by the Company's PRC legal adviser, according to the applicable PRC regulation ("礦產資源勘查區塊登記管理辦法"), the owner of an exploration permit shall apply to the relevant PRC administrative authority at least 30 days prior to the date of expiry of its exploration permit for renewal, and each renewal shall not exceed a period of two years. The Company's PRC legal adviser also advised that the CJV is entitled to apply for renewal of the exploration permit pursuant to the relevant PRC laws and regulations and there will not be any unforeseen legal obstacles for such renewal. However, the successful renewal of the exploration permit is subject to the granting of approval by the relevant authorities in the PRC. The exploration permit of the CJV has been renewed in the past.

Currently, there is no mine located within the Exploration Area.

Further details regarding the Exploration Area is included in the technical report in Appendix VII to this circular.

RISK FACTORS

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

Significant and continuous capital investment

The Acquisition requires significant and continuous capital investment while the exploration and production works may not be completed as planned. The original budgets may be exceeded and the intended economic results or commercial viability may not be achieved. Actual capital expenditures for the exploration work 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.

Permitted business scope of the CJV

The CJV is principally engaged in the exploration of mines in the PRC at permitted and authorised locations. The mining right in respect of the Mine is vested in the Ore Supplier with whom the CJV entered into the Supply Agreement for the supply of ore to the CJV for processing. However, the CJV has not conducted any processing of minerals in the past. As advised by the Vendor, as at the Latest Practicable Date, the CJV had made an application to the relevant PRC authorities to amend its principal activities for the inclusion of purchasing and processing of gold minerals. If the CJV fails to expand its principal activities to conduct purchasing and processing of gold minerals, the arrangement of the Supply Agreement and the further development of the Enlarged Group will be adversely affected.

Moreover, the obtaining of the relevant mining operation permit of the Exploration Area is not a condition precedent to which the Acquisition is subject. Although the possession of the exploration permit for the Exploration Area entitles the CJV to have a priority right to apply for a mining operation permit, provided that the mineral resources are not those foreign investors are prohibited from mining, there is no guarantee that the mining operation permit of the Exploration Area will be granted. If the CJV fails to obtain the relevant mining operation permit of the Exploration Area as planned, the Company may not recover fully the funds and resources it has spent, and the future development of the Enlarged Group may be adversely affected. As the steps (if any) to be taken in the case that the relevant mining operation permit of the Exploration Area cannot be obtained largely depend on the surrounding circumstances then prevailing, the Company does not have any detailed plan at this stage, but would assure that all steps taken will be in the best interest of the Company and the Shareholders as a whole, and in compliance with the applicable laws, regulations and the GEM Listing Rules.

Policies and regulations

Exploration and mining of the mineral resources in the PRC are subject to extensive governmental regulations, policies and controls. There can be no assurance that the relevant government will not change the relevant laws and regulations or impose additional or more stringent laws or regulations in future. Failure to comply with the relevant laws and regulations in the exploration and mining projects may adversely affect the future development of the Group.

Environmental protection policies

The mining 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.

CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) Scenario 1: immediately after the completion of the Fund Raising Exercise *(Note 2)* and with the allotment and issue of the Consideration Shares; (iii) Scenario 2a: with no Fund Raising Exercise but with the allotment and issue of the Consideration Shares up to 29% of the enlarged share capital; and (iv) Scenario 2b: with no Fund Raising Exercise but with the allotment and issue of the Consideration Shares as in the case of Scenario 2a and conversion of the Convertible Bonds in full, are as follows:

	As at the Latest Practicable Date		Scenario 1: Immediately after the completion of the Fund Raising Exercise in the maximum amount and with the allotment and issue of all the Consideration Shares		Scenario 2a: With no Fund Raising Exercise but with the allotment and issue of the Consideration Shares up to 29% of the enlarged share capital		Scenario 2b: With no Fund Raising Exercise but with the allotment and issue of the Consideration Shares as in the case of Scenario 2a and conversion of the Convertible Bonds in full	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
The Vendor and parties acting in concert with it								
– Existing Shares *(Note 1)*	383,288,000	15.77	383,288,000	3.33	383,288,000	13.39	383,288,000	5.66
– Consideration Shares	–	0.00	2,957,575,000	25.67	433,150,000	15.13	433,150,000	6.40
– Conversion Shares	–	0.00	–	0.00	–	0.00	3,904,350,000	57.69
The Vendor and parties acting in concert with it	*383,288,000*	*15.77*	*3,340,863,000*	*29.00*	*816,438,000*	*28.52*	*4,720,788,000*	*69.75*
– Mr. Ng Kwok Chu, Winfield	945,000	0.04	945,000	0.01	945,000	0.03	945,000	0.01
Other Directors	*945,000*	*0.04*	*945,000*	*0.01*	*945,000*	*0.03*	*945,000*	*0.01*
– Existing public Shareholders	2,046,072,038	84.19	2,046,072,038	17.76	2,046,072,038	71.45	2,046,072,038	30.24
– Placees from Fund Raising Exercise	–	0.00	6,133,000,000 *(Note 2)*	53.23	–	0.00	–	0.00
Public Shareholders	*2,046,072,038*	*84.19*	*8,179,072,038*	*70.99*	*2,046,072,038*	*71.45*	*2,046,072,038*	*30.24*
Total	2,430,305,038	100.00	11,520,880,038	100.00	2,863,455,038	100.00	6,767,805,038	100.00

Notes:

1. These Shares are held through Speedy Well, a substantial shareholder of the Company.

2. Based on a placing price of HK$0.10 per placing Share in the Fund Raising Exercise. The Company wishes to clarify that as stated in the announcement of the Company dated 23 January 2008, the shareholding structure was illustrated based on an assumption that the placing price would be HK$0.30 per placing Share. Such placing price was then tentatively set by the management with reference to the then general conditions of the stock market in Hong Kong and the then prevailing market price of the Shares. The subsequent change of the proposed placing from HK$0.30 per Share to HK$0.10 per Share was resulted principally from the change in the capital market sentiment since the end of 2007 and the recent performance of the price of the Shares.

3. There will not be any change of control of the Company upon completion of the Acquisition.

4. The authorised share capital of the Company as at the Latest Practicable Date was HK$100,000,000 divided into 200,000,000,000 Shares of HK$0.0005 each.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the provision of web-page design and website maintenance services, system integration services and information technology consultancy services and sale of software products. The Group will continue to carry on with its existing business after Completion.

Demand for gold has drastically increased since early 2006. It is expected that the gold market in the PRC will follow such trend, and the demand for gold is expected to increase in the PRC.

In addition, the gold market in the PRC has gradually become deregulated in recent years and the PRC government has established a series of policies to promote the development of the gold industry. The PRC government also strongly encourages gold mining enterprises to use advanced technologies in the mining and production of gold by granting them preferential treatments on taxation. These developments have significantly improved the business environment of the gold mining industry in the PRC.

In light of the above, the Directors are of the view that the Acquisition represents a good opportunity to invest in the natural resources sector, and enables the Group to diversify into gold mining business in the PRC. Currently, the Company does not have any capital commitment in relation to the exploration in the Exploration Area. Upon Completion, the CJV will continue to carry out the exploration work in the Exploration Area. It will also apply for the relevant mining operation permit in accordance with the applicable PRC laws and regulations. As advised by the Company's PRC legal adviser, the possession of the exploration permit for the Exploration Area entitles the CJV to have a priority right to apply for a mining operation permit, provided that the mineral resources are not those foreign investors are prohibited from mining. A mining operation permit will allow the CJV to exploit the minerals available in the Exploration Area subject to the relevant PRC laws and regulations. It is expected that approximately RMB8 million (equivalent to approximately HK$8.4 million) to RMB9 million (equivalent to approximately HK$9.5 million) will be used by the CJV for carrying out its exploration work in the Exploration Area during the year ending 31 December 2008. Upon completion of the exploration, it is planned that exploitation and processing of minerals will be conducted by the CJV subject to the relevant PRC laws and regulations. The Acquisition is anticipated to be beneficial to the Company and will enable the Company to generate income and cash flow from investment and trading activities in the natural resources sector. Based on the information provided by the Vendor, the CJV is managed and supervised by a team of senior engineers specialising in geology and exploration and the staff of the PRC Partner with expertise in mining. It is expected that, upon Completion, such managerial staff will remain with the CJV. Hence, the Directors consider that the CJV has sufficient expertise to run the exploration and mining business.

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 EFFECTS OF THE ACQUISITION ON THE GROUP

Set out below is a summary of the pro forma financial information of the Group as at 31 December 2007 and after the completion of the Acquisition, prepared on the bases set out on page III-1 of this circular and details of which are set out in Appendix III to this circular:

	Before completion of the Acquisition *(HK$'000)*	**After completion of the Acquisition** *(HK$'000)*
Total assets	94,183	1,960,205
Total liabilities	4,760	950,815
Net assets	89,423	1,009,390
Net current assets	70,160	1,813
Gearing ratio (total borrowings/total net assets)	4.6%	94.1%
Total revenue	2,609	2,609
Loss attributable to the equity holders of the Company	19,154	175,125

As set out above, upon completion of the Acquisition,

(i) the total assets of the Enlarged Group will increase by approximately HK$1,866 million, mainly attributable to an increase in the goodwill in the approximate sum of HK$1,263 million;

(ii) the total liabilities of the Enlarged Group will increase by approximately HK$946 million as a result of the issue of the Convertible Bonds (if so issued) to satisfy part of the Consideration in the approximate sum of HK$946 million;

(iii) the total net assets of the Enlarged Group will increase by approximately HK$920 million due to the goodwill and intangible assets incurred during the Acquisition;

(iv) the Enlarged Group will have net current assets of approximately HK$2 million, which is mainly due to the cash paid under the Acquisition in the sum of HK$68 million;

(v) the gearing ratio of the Enlarged Group will increase from about 4.6% to about 94.1% because of the presence of the Convertible Bonds (if issued) of the Enlarged Group;

(vi) the loss attributable to the equity holders of the Enlarged Group will increase by about HK$156 million as a result of the imputed interest expenses on the Convertible Bonds (if issued).

The significant increase in loss attributable to the equity holders of the Company and the gearing ratio of the Company after the Acquisition is due to the possible issue of the Convertible Bonds and assuming that no Fund Raising Exercise is conducted. In view of the fact that the Convertible Bonds are interest-free and will only become mature in five years' time, barring unforeseen circumstances, it is not expected that any adverse impact will be imposed on the cash flow of the Enlarged Group in the near future. Moreover, the Directors are of the view that the Acquisition represents a good opportunity for the Group to invest in the natural resources sector and enables the Group to diversify into gold mining business in the PRC. Hence, the Directors consider that the terms of the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders.

IMPLICATION UNDER THE GEM LISTING RULES

The Vendor is a connected person by virtue of him being a Director and a substantial Shareholder interested in approximately 15.77% of the issued share capital of the Company as at the Latest Practicable Date. As such, the Acquisition constitutes a connected transaction on the part of the Company under Chapter 20 of the GEM Listing Rules. The Acquisition also constitutes a very substantial acquisition on the part of the Company under Chapter 19 of the GEM Listing Rules. Accordingly, the Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the EGM. In accordance with the GEM Listing Rules, the Vendor and his associates and Ms. Wu Wei Hua will abstain from voting on the resolution to approve the Acquisition, the Convertible Bonds, the Placing Mandate and the Continuing Connected Transaction and the vote exercised by the Independent Shareholders at the EGM shall be taken by poll.

The Independent Board Committee has been established to consider the Acquisition and to advise the Independent Shareholders in relation to the terms of the Acquisition, the Convertible Bonds, the Placing Mandate and the Continuing Connected Transaction and on how to vote. The Independent Financial Adviser has also been appointed to advise the Independent Board Committee and the Independent Shareholders regarding the Acquisition, the Convertible Bonds, the Placing Mandate and the Continuing Connected Transaction.

PROPOSED NON-EXEMPT CONTINUING CONNECTED TRANSACTION

The CJV has an existing agreement (i.e. the Supply Agreement) with the Ore Supplier, which is a company controlled by the PRC Partner, which is principally engaged in mining and smelting. The Ore Supplier has not supplied any ore to the CJV before. Since the Mine (an area of 0.43 sq.km. of a gold mining site) is located adjacent to the Exploration Area (an area of approximately 113.96 sq. km. of the gold mining site) and the CJV intends to conduct processing of minerals available from the Mine, it entered into the Supply Agreement with the Ore Supplier. Moreover, the CJV is principally engaged in exploration which does not generate any revenue. While it intends to expand its principal activities for the inclusion of purchasing and processing of gold minerals, the entering into of the Supply Agreement provides an opportunity to the CJV to generate revenue and expand its business.

Pursuant to the Supply Agreement, the CJV agreed to purchase and the Ore Supplier agreed to sell all the ore extracted from the Mine at a price of RMB12 (equivalent to approximately HK$12.63) per ton. The CJV will conduct processing of the minerals available from the Mine supplied by the Ore Supplier. The Supply Agreement is of a term expiring on 31 December 2010. The expected caps for the Supply Agreement for the period commencing from the date of the Supply Agreement and ending on 31 December 2008, and the two years ending 31 December 2009 and 31 December 2010 are approximately RMB21.60 million (equivalent to approximately HK$22.74 million), approximately RMB32.40 million (equivalent to approximately HK$34.11 million) and approximately RMB43.20 million (equivalent to approximately HK$45.47 million), respectively. Such annual caps are determined by reference to the expected amount of ore to be supplied to the CJV under the Supply Agreement which will be not less than 1.5 million tons, not less than 2.25 million tons and not less than 3 million tons for the period commencing from the date of the Supply Agreement and ending on 31 December 2008, and the two years ending 31 December 2009 and 31 December 2010, respectively, and include a buffer of 20% for the increase in the amount of ore to be supplied to the CJV. The Ore Supplier has agreed to pledge the mining right on the Mine to the CJV to guarantee its obligations under the Supply Agreement.

Upon Completion, the CJV will become an indirect non wholly-owned subsidiary of the Company and the PRC Partner, being a substantial shareholder of the CJV, and companies controlled by it (including the Ore Supplier) will become connected persons of the Company. As such, the transactions contemplated under the Supply Agreement will constitute continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules upon Completion. Accordingly, the Supply Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the EGM.

The Independent Board Committee has been established to consider the Supply Agreement and the relevant annual caps and to advise the Independent Shareholders in relation to the terms of the Supply Agreement and on how to vote. The Independent Financial Adviser has also been appointed to advise the Independent Board Committee and the Independent Shareholders regarding the Supply Agreement and the relevant annual caps.

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 Agreement, including, amongst other things, the Acquisition, the allotment and issue of the Consideration Shares and the Conversion Shares, the grant of the Placing Mandate and the Continuing Connected Transaction and the relevant annual caps. In accordance with the GEM Listing Rules, the Vendor and his associates, Ms. Wu Wei Hua and Shareholders interested in the Agreement, the Acquisition, the Placing Mandate and the Continuing Connected Transaction, will abstain from voting on the resolutions to approve the Acquisition and the Supply Agreement and the relevant annual caps. Any vote exercised by the Independent Shareholders at the EGM shall be taken by poll.

PROCEDURES TO DEMAND FOR A POLL AT GENERAL MEETINGS

Pursuant to article 66 of the articles of association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless voting by way of a poll is required by the rules of the designated stock exchange or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(i) by the chairman of the meeting; or

(ii) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(iii) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(iv) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right; or

(v) if required by the rules of the designated stock exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at the meeting.

Unless a poll is duly demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has on a show of hands been carried, or carried unanimously, or by a particular majority, or not carried by a particular majority, or lost, and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the facts without proof of the number or proportion of the votes recorded for or against the resolution.

RECOMMENDATION

The Independent Board Committee comprising all the independent non-executive Directors, namely Dr. Leung Wai Cheung, Mr. Chan Sing Fai and Mr. Liu Jia Qing, has been established to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Acquisition, the Convertible Bonds, the Placing Mandate, the Continuing Connected Transaction and the relevant annual caps. Your attention is drawn to the advice of the Independent Board Committee set out in its letter set out on page 26 to page 27 in this circular. Your attention is also drawn to the letter of advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition, the Convertible Bonds, the Placing Mandate, the Continuing Connected Transaction and the relevant annual caps set out on page 28 to page 51 in this circular.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the Acquisition (including without limitation, the allotment and issue of the Consideration Shares and the Conversion Shares), the issue of the Convertible Bonds and the Continuing Connected Transaction (including the relevant annual caps) are fair and reasonable as far as the Independent Shareholders are concerned and the Acquisition (including without limitation, the allotment and issue of the Consideration Shares and the Conversion Shares), the issue of the Convertible Bonds and the Continuing Connected Transaction (including the relevant annual caps) are in the interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Acquisition (including without limitation, the allotment and issue of the Consideration Shares and the Conversion Shares) and the Continuing Connected Transaction (including the relevant annual caps) at the EGM.

As to the Placing Mandate, having taken into account the advice of the Independent Financial Adviser, the Independent Board Committee, considers that the Placing Mandate is not in the interest of the Company and the Shareholders as a whole and that the terms of the Placing Mandate are not fair and reasonable. The Independent Board Committee, therefore, recommends the Independent Shareholders that they should vote against the relevant resolution(s) in respect of the Placing Mandate at the EGM.

The executive Directors considers that it is part of the Placing Mandate that Shares have to be issued at a price of not more than 20% discount to the (i) average closing price of the Shares for the five consecutive trading days before the date of the relevant placing agreement or (ii) the closing price of the Shares for the last trading day before the date of the relevant placing, whichever is higher; hence, the price of HK$0.10 was intended to be the minimum issue price of the Shares and would not necessarily be the price that the Shares would actually be issued if the price of Shares should be trading at a higher price before the relevant placing agreement is to be entered into. The obtaining of the Placing Mandate could provide flexibility to the Directors to undertake a placing of Shares if they consider appropriate at the relevant time and to fund part of the Consideration from the proceeds from the Fund Raising Exercise. In addition, it is intended that 90% of the net proceeds from the Fund Raising Exercise would be used to fund part of the Consideration and 10% of such net proceeds would be for general capital use and all such general working capital will be used for the exploration work of the CJV. Hence, the Fund Raising Exercise could provide additional working capital for the Group.

ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

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

The following is the full text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to, among other matters, the Acquisition and the Continuing Connected Transaction for inclusion in this circular:

CHINA METAL RESOURCES HOLDINGS LIMITED
中國金屬資源控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8071)

To the Shareholders

13 May 2008

Dear Sir/Madam

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION, PROPOSED CONTINUING CONNECTED TRANSACTION AND SPECIFIC MANDATE TO ISSUE NEW SHARES

We refer to the circular to the Shareholders dated 13 May 2008 ("**Circular**") of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as regards the fairness and reasonableness of the Acquisition (including without limitation, the allotment and issue of the Consideration Shares and the Conversion Shares), the Placing Mandate and the Continuing Connected Transaction (including the relevant annual caps) and to advise the Independent Shareholders on how to vote on the resolutions to be proposed at the EGM.

We wish to draw your attention to the Letter from the Board set out on page 7 to page 25 of the Circular which sets out the terms and conditions of the Acquisition (including without limitation, the allotment and issue of the Consideration Shares and the Conversion Shares), the Placing Mandate, the issue of the Convertible Bonds and the Continuing Connected Transaction (including the relevant annual caps) and the letter of advice from the Independent Financial Adviser as set out on page 28 to page 51 of the Circular.

Having considered, among other matters, the principal factors and reasons considered by, and the opinion of, the Independent Financial Adviser as set out in its letter of advice, we consider that the terms of the Acquisition (including without limitation, the allotment and issue of the Consideration Shares and the Conversion Shares), the issue of the Convertible Bonds and the Continuing Connected Transaction (including the relevant annual caps) are fair and reasonable as far as the Independent Shareholders are concerned and the Acquisition (including without limitation, the allotment and issue of the Consideration Shares and the Conversion Shares), the issue of the Convertible Bonds and the Continuing Connected Transaction (including the relevant annual caps) are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Acquisition (including without limitation, the allotment and issue of the Consideration Shares and the Conversion Shares) and the Continuing Connected Transaction (including the relevant annual caps), as contained in the notice convening the EGM set out on page EGM-1 to page EGM-4 of the Circular, to be proposed at the EGM.

As to the Placing Mandate, having considered the advice of the Independent Financial Adviser, we consider that the Placing Mandate is not in the interest of the Company and the Shareholders as a whole and that the terms of the Placing Mandate are not fair and reasonable. We, therefore, recommend the Independent Shareholders to vote against the relevant resolution(s) in respect of the Placing Mandate at the EGM.

Yours faithfully

Leung Wai Cheung	**Chan Sing Fai**	**Liu Jia Qing**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Access Capital Limited prepared for incorporation in this circular.

Access Capital

Suite 606, 6th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

13 May 2008

To: *The Independent Board Committee and the Independent Shareholders of China Metal Resources Holdings Limited*

Dear Sirs,

CONNECTED TRANSACTION
AND
PROPOSED CONTINUING CONNECTED TRANSACTION

I. INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders with regard to the Acquisition and the Continuing Connected Transaction, details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular of China Metal Resources Holdings Limited to the Shareholders dated 13 May 2008 (the "Circular"), of which this letter forms part. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

On 23 January 2008, the Company announced that the Purchaser, being a wholly-owned subsidiary of the Company, and the Vendor entered into the Agreement on 4 January 2008, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Share (being the entire issued share capital of the Target) and the Sale Loan at the Consideration of HK$1,800 million which may be satisfied by way of the issue of the Consideration Shares and/or the Convertible Bonds. The Acquisition constitutes a very substantial acquisition of the Company under Chapter 19 of the GEM Listing Rules. The Vendor, who is a Director and a substantial Shareholder interested in approximately 15.77% of the issued share capital of the Company as at the Latest Practicable Date, is a connected person of the Company. Accordingly, the Acquisition also constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules and is subject to, among other things, the approval of the Independent Shareholders at the EGM.

On 19 December 2007, the CJV entered into the Supply Agreement with the Ore Supplier, pursuant to which the CJV agreed to purchase and the Ore Supplier agreed to sell all the ore extracted from the Mine. Upon Completion, the CJV will become an indirect non wholly-owned subsidiary of the Company and the PRC Partner, being a substantial shareholder of the CJV, and companies controlled by it (including the Ore Supplier) will become connected persons of the Company. Accordingly, the transactions contemplated under the Supply Agreement will, upon Completion, constitute continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules and are subject to, among other things, the approval of the Independent Shareholders at the EGM.

II. THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of four executive Directors, namely Mr. Choi Koon Ming, Mr. Leung Ngai Man, Mr. Ng Kwok Chu, Winfield and Ms. Wu Wei Hua and three independent non-executive Directors, namely Dr. Leung Wai Cheung, Mr. Chan Sing Fai and Mr. Liu Jia Qing.

The Independent Board Committee comprising all the independent non-executive Directors, Dr. Leung Wai Cheung, Mr. Chan Sing Fai and Mr. Liu Jia Qing, has been established to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Acquisition (including the issue of the Consideration Shares and the Convertible Bonds), the Placing Mandate, the Continuing Connected Transaction and the relevant annual caps. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether or not the Acquisition (including the issue of the Consideration Shares and the Convertible Bonds), the Placing Mandate and the Continuing Connected Transaction are in the interests of the Company and the Shareholders as a whole; (ii) whether or not the respective terms of the Acquisition (including the issue of the Consideration Shares and the Convertible Bonds), the Placing Mandate, the Continuing Connected Transaction and the relevant annual caps are fair and reasonable; and (iii) how the Independent Shareholders should vote in respect of the respective resolutions to approve the Acquisition (including the issue of the Consideration Shares and the Convertible Bonds), the Placing Mandate, the Continuing Connected Transaction and the relevant annual caps at the EGM.

Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company. We are independent of the Company for the purposes of the GEM Listing Rules.

III. BASES OF AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Company and/or its senior management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations made or provided by the Directors and/or the senior management staff of the Company contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or its senior management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all currently available information and documents which are available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company and/or its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Company, the Target or any of their respective subsidiaries.

IV. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

1. Principal activities of the Group

The Group is principally engaged in the provision of web-page design and website maintenance services, system integration services and information technology consultancy services and sale of software products. The financial results of the Group for each of the three years ended 31 December 2007 are summarised as below.

	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	*(Audited)*	*(Audited)*
Revenue	630	964	2,609
Gross profit	64	80	798
Loss for the year	(4,551)	(5,174)	(19,154)

As shown in the above table, the Group recorded losses for each of the three financial years 2005, 2006 and 2007. In particular, the loss of the Group increased significantly to approximately HK$19.2 million for the year ended 31 December 2007. As set out in the annual report of the Company for the year ended 31 December 2007, while the revenue of the Group for 2007 increased by approximately HK$1.6 million to approximately HK$2.6 million as a result of the significant rise in the revenue of the business segment of trading of hardware and software, the Group recorded an operating loss of approximately HK$17.6 million for the year ended 31 December 2007 as compared to the operating loss of approximately HK$3.1 million for 2006. As explained by the Directors, the loss of the Group for 2007 was mainly attributable to the substantial increase in administrative expenses including the share-based payment expenses on grant of share options and the legal and professional expenses incurred for various fund raising activities of the Company during the year.

According to the Company's annual report for the financial year ended 31 December 2006, the Group was considering to scale down the loss making business segment of web page design and website maintenance. The Group would increase its investment in business segments with more stable profit margins and better business opportunities such as system integration and information technology consultancy services and other new areas such as information technology staff recruitment agency and secondment. As set out in the Company's interim report for the six months ended 30 June 2007, the Group would consolidate its resources to focus on the business segment of information technology consultancy services, staff recruitment and secondment and at the same time explore new investment opportunities in the PRC.

As set out in the Company's annual report for the year ended 31 December 2007, 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. As advised by the Directors, for the year ended 31 December 2007, the Group financed its operations mainly with internally generated cash flow as well as the cash flow generated from two share placements conducted in September and October 2007. As a result of the completion of the aforesaid share placements, the Company raised aggregate net proceeds of approximately HK$97.3 million, which was able to improve its capital base significantly. The Group had net assets of approximately HK$89.4 million as at 31 December 2007, as compared to its net-liabilities-position of approximately HK$20.0 million as at 30 June 2007.

2. Reasons for and benefits of the Acquisition

As stated in the Letter from the Board, demand for gold has drastically increased since early 2006. It is expected that the gold market in the PRC will follow such trend, and the demand for gold is expected to increase in the PRC.

In addition, the gold market in the PRC has gradually become deregulated in recent years and the PRC government has established a series of policies to promote the development of the gold industry. The PRC government also strongly encourages gold mining enterprises to use advanced technologies in the mining and production of gold by granting them preferential treatments on taxation. These developments have significantly improved the business environment of the gold mining industry in the PRC.

In light of the above, the Directors are of the view that the Acquisition represents a good opportunity to invest in the natural resources sector and enables the Group to diversify into gold mining business in the PRC. Upon Completion, the Group will engage in the exploration and processing of minerals through the CJV subject to the relevant PRC laws and regulations. The Directors anticipate that the Acquisition will be beneficial to the Company and will enable the Company to generate income and cash flow from investment and trading activities in the natural resources sector.

As stated in the Letter from the Board, the CJV is managed and supervised by a team of senior engineers specialising in geology and exploration and the staff of the PRC Partner with expertise in mining. It is expected that, upon Completion, such managerial staff will remain with the CJV. Hence, the Directors consider that the CJV has sufficient expertise to run the exploration and mining business. For the reasons given above, the Directors believe that the Acquisition would enhance the future growth and profitability of the Group.

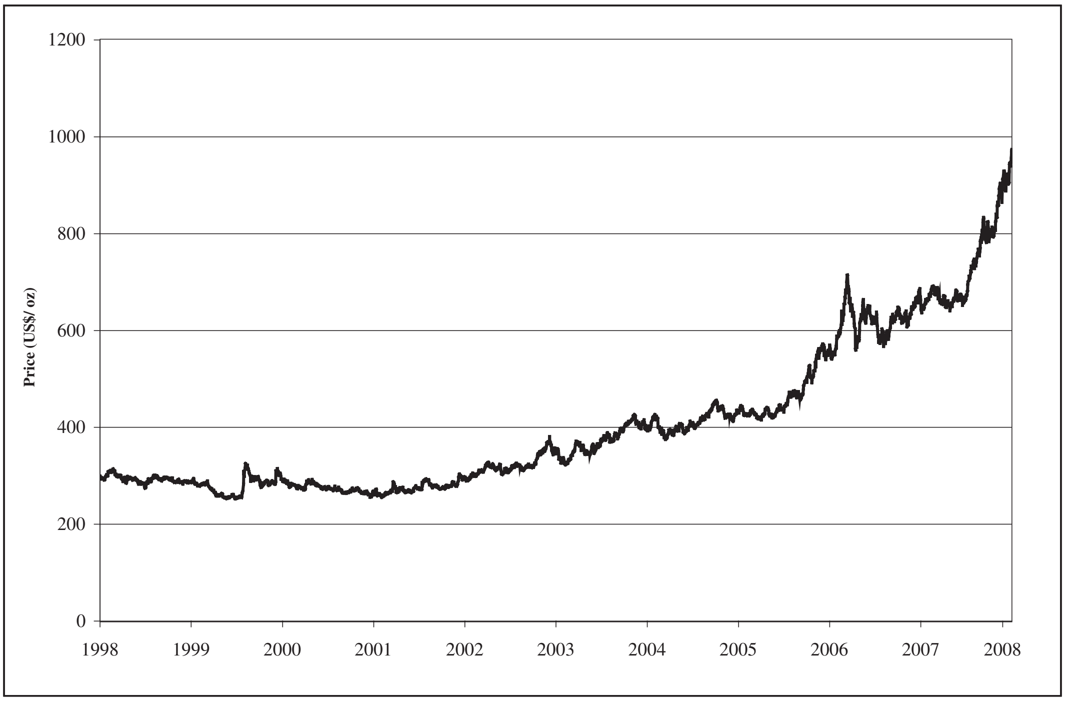
Based on the information shown in the annual report of the Company for the year ended 31 December 2007, we understand that the Group has been loss making since 2002. As mentioned above, the Group had unaudited net liabilities of approximately HK$20.0 million as at 30 June 2007. Having completed two share placements which were conducted in September and October 2007 with aggregate net proceeds of approximately HK$97.3 million, the Company was able to improve its capital base and as at 31 December 2007, the Group had net assets of approximately HK$89.4 million. In light of the existing loss-making business operations of the Group, we consider it necessary for the Group to seek for other business or development opportunities in broadening its revenue base as well as strengthening its financial position. Given the recent upward trend of the gold prices and the prosperous gold mining industry in the PRC (the details of which are discussed in the relevant section below), we are of the view that the Group's proposed diversification into the gold mining business through the Acquisition is in the interests of the Company and the Shareholders as a whole.

3. Outlook of the gold mining industry in the PRC

Gold is one of the most well-known metals in the world. South Africa has been the major source of the world's gold supply. The other major producers are the United States, Australia, China, Russia and Peru. China's gold production has risen significantly in recent years. According to the China Gold Association, China's gold production reached a record high of 270.49 tons in 2007, representing an increase of 12.67% growth over that of 2006. It ranks the second largest producer of gold in the world and the production volume nearly leveled that of South Africa which produced 272 tons in 2007.

Historically, gold has been considered one of the safest investments in the world. Annual demand for gold falls into three main categories with the jewelry market being the largest and the other two categories are industrial demand in the electronic sector and investment demand. All the gold that has ever been mined exists in some form or another and the majority of the stocks could easily be mobilised. Therefore, any upward movement of price is often met by the resale of stock and this is the reason why the gold price is historically less volatile than most of the other commodity prices. According to World Gold Council, China has now undertaken as the second largest volume retail market for gold jewelry after India, with demand for jewelry reaching 302 tones in 2007. In addition, based on the statistics information published by Shanghai Gold Exchange, trading of gold in Shanghai Gold Exchange in 2007 amounted to 1,828.13 tons, representing a significant increase of over 200% from that of 578.53 tons in 2006.

The following chart sets out the gold price per ounce for the ten-year period up to February 2008 which had a continued upward trend. It was also revealed that the gold price per ounce increased by approximately 23% during 2007. From January to February 2008, the gold price per ounce increased by approximately 12.5%. The increase in gold price was mainly attributed by the weakening US dollars, reduced production by South Africa and other traditional producing countries such as the United States and Australia as well as growing demand for gold as investments from institutional investors.



Source: Bloomberg

According to the National Bureau of Statistics of China, China's GDP for 2007 was RMB2,466 billion representing a growth of 11.4% over that of 2006. From 2002 to 2007, China's GDP has a compound annual growth of 15.43%. It is expected that the 2008 Olympic Games in Beijing would further benefit China's GDP in coming years. In general, given the optimistic outlook on China's economy and the rising gold price, we are of the view that the demand for gold is expected to continue to increase in the PRC. We concur with the Directors' view that the Acquisition represents a good opportunity for the Group to diversify into gold mining business in the PRC, and that the Acquisition will enable the Company to generate income and cash flow from investment and trading activities in the natural resources sector.

4. Exploration and mining rights

In accordance with the relevant PRC laws, exploration permits and mining operation permits must be obtained from the relevant government bodies for exploration, mining and processing of minerals in China.

As set out in the Letter from the Board, the CJV is the holder of the exploration permit on the Exploration Area for a period of two years from 22 April 2008 to 22 April 2010 granted by the Department of Land and Resources of Yunnan Province, the PRC. With the exploration permit of the Exploration Area, the CJV is granted the right to carry out exploration work within the Exploration Area. As advised by the Company's PRC legal adviser, according to the applicable PRC regulation ("礦產資源勘查區塊登記管理辦法"), the owner of an exploration permit shall apply to the relevant PRC administrative authority at least 30 days prior to the date of expiry of its exploration permit for renewal, and each renewal shall not exceed a period of two years. The Company's PRC legal adviser also advises that the CJV is entitled to apply for renewal of the exploration permit pursuant to the relevant PRC laws and regulations and there will not be any unforeseen legal obstacles for such renewal.

The Group will also apply for the relevant mining operation permit in accordance with the applicable PRC laws and regulations. As advised by the Company's PRC legal adviser, the possession of the exploration permit for the Exploration Area entitles the CJV to have a priority right to apply for a mining operation permit, provided that the mineral resources are not those foreign investors are prohibited from mining. A mining operation permit will allow the CJV to exploit the minerals available in the Exploration Area subject to the relevant PRC laws and regulations.

5. Principal terms of the Acquisition

5.1 Assets to be acquired

Pursuant to the 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 the Target) and the Sale Loan. As at the Latest Practicable Date, the Sale Loan amounted to HK$12,778,644.50.

Background and financial information on the Target was set out in the Letter from the Board. As at the Latest Practicable Date, the Target indirectly held 80% of the registered and paid up capital of the CJV which is principally engaged in the exploration of mines in the PRC at permitted and authorised locations. As advised by the Company's PRC legal adviser, the CJV is the holder of the exploration permit on the Exploration Area. The Exploration Area is a gold mining site with an area of approximately 113.96 sq.km located at Luoxi City, Yunnan Province, the PRC. Based on the information provided by the Vendor, the preliminary estimation of the potential resources of gold in the Exploration Area is approximately 60 metric tons to 80 metric tons. Further information on the Exploration Area is set out in the Letter from the Board and the technical report prepared by Minarco-MineConsult, who is an independent technical consultant engaging in providing resource evaluation, mining engineering and mine valuation services to the resources and financial services industries, contained in the Circular. The CJV has commenced its business and carries out exploration work at the Exploration Area. As at the Latest Practicable Date, there was no mine located within the Exploration Area. The Company currently expects that approximately RMB8.0 million (approximately HK$8.4 million) to RMB9.0 million (approximately HK$9.5 million) will be used by the CJV for carrying out its exploration work in the Exploration Area during the year ending 31 December 2008.

Pursuant to the Supply Agreement, the Ore Supplier, which is a company controlled by the PRC partner of the CJV, will supply the ores from the Mine to the CJV for processing. Although the CJV has not conducted any processing of minerals in the past, the CJV will make an application to the relevant PRC authorities to amend its principal activities for the inclusion of purchasing and processing of gold minerals.

5.2 Consideration

As mentioned above, the Consideration of HK$1,800 million is for the acquisition of both the Sale Share and the Sale Loan, which represents all obligations, liabilities and debts owing or incurred by the Target to the Vendor and amounted to HK$12,778,644.50 as at the Latest Practicable Date. Given the fact that the Sale Loan will be assigned by the Vendor to the Purchaser on a dollar-for-dollar basis at Completion and the Consideration for the acquisition of both the Sale Share and the Sale Loan has been fixed at HK$1,800 million, the portion of the Consideration which is for the acquisition of the Sale Share will become smaller if the Sale Loan has a higher principal amount outstanding as at the date of Completion. On the other hand, the portion of the consideration for the acquisition of the Sale Share will have a maximum amount of HK$1,800 million in the event that the Sale Loan is fully settled before the date of the Completion. For the purpose of our evaluating the fairness and reasonableness of the Consideration as set out below, we assume that the Consideration of HK$1,800 million is solely for the acquisition of the Sale Share, provided that the presence of the Sale Loan will only render the consideration for the Sale Share to be more worthy.

As set out in the Letter from the Board, the Consideration was determined by the Vendor and the Purchaser on the basis of normal commercial terms and on arm's length negotiations by reference to, among other things, (i) the value of the opportunity for the Group to gain access to the precious metals market in the PRC and to broaden the income base of the Group; (ii) the continuous growth in the market price of gold in recent years; (iii) the further business and growth potential of the CJV; (iv) the Geology Reports, which were prepared on the Exploration Area but do not state the amount of reserves in the Exploration Area; and (v) the expected value of the project of the CJV, comprising an ore supply portion and an exploration portion, to be not less than RMB3.6 billion.

For the purposes of evaluating the fairness and reasonableness of the Consideration, we have attempted to identify other recent transactions involving the acquisition of companies engaging in the gold exploration, mining and/or processing business in the PRC by listed companies of the Stock Exchange. However, having reviewed the terms and the nature of such transactions, we do not consider them to be comparable to the Acquisition. In particular, the majority of such transactions involved the acquisition of exploration areas in which gold mines have already been found with an independent estimation of gold reserves, or the acquisition of companies already having the mining operation permit to carry out the mining activities. In the present case, there is not any independent estimation of gold reserves in the Exploration Area and the CJV (being the subject target under the Acquisition) is still carrying out exploration work and is yet to identify gold mine in the Exploration Area.

Nevertheless, given the fact that the principal asset of the Target is its indirect 80% equity interest in the CJV which is principally engaged in the exploration of mines in the PRC at permitted and authorised locations, we consider it relevant and appropriate, for the purposes of evaluating the fairness and reasonableness of the Consideration, to assess the commercial value of the CJV. In this connection, we note that the Circular has contained a valuation report on the project of the CJV (the "Project Valuation Report") which has been conducted by an independent valuer, namely LCH (Asia-Pacific) Surveyors Limited (the "Valuer"). The project of the CJV comprises an ore supply portion and an exploration portion (the "CJV Project"). In particular, the CJV Project comprises the Supply Agreement relating to the Target Mine and an exploration area of a parcel of land situated at Dagangba Area, Santaishan, Mangshi, Dehong Dai and Jingpo Autonomous Prefecture, Yunnan Province, the PRC (i.e. the Exploration Area).

Based on our review of the Project Valuation Report and our further discussion with the Valuer, we understand that the Valuer has been instructed by the management of the Company to analyse and prepare an agreed-upon procedures project evaluation report to evaluate the financial net present value of the CJV Project as proposed in a business plan titled "Yunnan Western Mining Company Limited Mangshi Gold Mine Business Plan" dated 19 December 2007 and its supplementary information (collectively, referred to as the "Business Plan") provided by the management of the Company. In addition to the Business Plan, the Valuer has also referred to a geology report attachment titled "Yunnan Province Luxi City, Mt. Santai, Mengdan Area Gold Mine General Investigation Report" prepared by the PRC Partner in 2005, and a geology report titled "Yunnan Province Luxi County, Upper Manggang Area Gold Mine General Investigation Report" prepared by the Yunnan Province Nuclear Engineering Industry Second Sub-Team, a subsidiary of the PRC Partner, in 2006 (collectively, referred to as the "Geology Reports").

We have also enquired into the Valuer on the methodologies adopted and assumptions made in arriving at the relevant valuation. In this connection, we understand that the Valuer has considered three generally accepted valuation methods, namely the payback period method, return on capital employed method and discounted cash flows method, and that the Valuer considers the discounted cash flows method to be the most appropriate method to assess the profitability of the CJV Project and has applied such method to calculate the net present value of the CJV Project. For assumption of the appropriate discount rate, the Valuer considers the weighted average cost of capital to be an appropriate model for the estimation of the cost of capital of the Company. We understand that the Valuer has made reference to similar publicly listed mining companies, both gold mining and metallic minerals other than gold, in the stock exchanges of China and other countries such as London and Canada with mining projects in China. In assessing the future gold price, the Valuer has made reference to the future gold price listed in the market and have conducted a sensitivity analysis on the net present value of the CJV Project if changes in the assumptions used in the calculations/projections were to take place.

In connection with the Project Valuation Report, we also note that Grant Thornton, the reporting accountants, has examined the arithmetical accuracy of the calculations of the discounted cash flow forecast underlying the Project Valuation Report, and that Hantec Capital Limited, the financial adviser to the Company, has reviewed the relevant forecasts and are of the opinion that such forecasts have been made after due and careful enquiry by the Directors. As at the date of the Project Valuation Report, the net present value of the CJV Project is calculated at approximately RMB3,865 million of which RMB628 million is attributable to the Supply Agreement. Based on our discussion with the Valuer, we consider that, the assumptions, the basis and the methodology for the valuation of the CJV Project are fair and reasonable. Nevertheless, it should be reminded that like all valuation methods involving forecasts of future events, revenue and profits cannot be projected with complete accuracy and are dependent on the assumptions made. As set out in the Project Valuation Report, the exploration portion of the CJV Project is at a preliminary stage and the work of the Valuer is preliminary in nature and suitable only for making a reference as to whether the Business Plan, if successful, will yield the economic benefit to the interested party in the CJV Project subject to the known facts and hypothesis as contained in the relevant documents. In addition, the Project Valuation Report is not a detailed evaluation of the feasibility of developing a mine and its subsequent processing areas as proposed in the Business Plan. Instead, the Project Valuation Report is an objective evaluation of the financial net present value of the CJV Project as proposed in the Business Plan and the Geology Reports.

Having considered all of the above, we are of the opinion that the financial net present value of the CJV Project as opined by the Valuer may provide a valid benchmark for assessing the fairness and reasonableness of the Consideration. In view of the fact that the Consideration of HK$1,800 million is substantially less than the aforesaid valuation of the CJV Project, we are of the opinion that the Consideration is in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned.

5.3 Payment terms

Pursuant to the Agreement, the Consideration of HK$1,800 million shall be settled in the following manner:

(i) on the date of the Agreement, an aggregate amount of HK$65 million was paid by the Purchaser to the Vendor as the Deposit and part of the Consideration;

(ii) a sum equivalent to 90% of the net proceeds from the Fund Raising Exercise shall be payable by the Purchaser to the Vendor on Completion (the remaining 10% of such net proceeds will be retained as general working capital);

(iii) in the event that the net proceeds obtained from item (ii) above are not sufficient to satisfy the remaining balance of the Consideration (being HK$1,735 million), the Purchaser shall procure the Company to allot and issue the Consideration Shares, credited as fully paid at the Issue Price, on Completion to the Vendor. Such Consideration Shares, together with the Shares beneficially owned by the Vendor at Completion shall not exceed 29% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares; and

(iv) the balance of the Consideration, after the deduction of items (i), (ii) and (iii) above, shall be satisfied by the Purchaser procuring the Company to issue the Convertible Bonds to the Vendor on Completion.

Pursuant to the Agreement, one of the conditions precedent for the Completion is the completion of the Fund Raising Exercise. As set out in the Letter from the Board, the Fund Raising Exercise may include placing of new shares or issue of other securities to investors who are third party independent of the Company and its connected persons, excluding by way of rights issue or open offer.

5.4 The Consideration Shares

Pursuant to the Agreement, the Consideration Shares will be issued at an issue price of HK$0.40 per Consideration Share. Assuming that there is no Fund Raising Exercise and the number of Consideration Shares to be issued to the Vendor which will result in the Vendor holding up to 29% of the issued share capital of the Company as at the Completion Date, the Consideration Shares would satisfy up to approximately HK$173.26 million of the Consideration.

The Issue Price represents:

(i) a premium of approximately 2.56% over the closing price of HK$0.39 per Share as quoted on the Stock Exchange on 4 January 2008, being the date of the Agreement (the "Last Trading Day");

(ii) a premium of approximately 11.42% over the average closing price of approximately HK$0.359 per Share for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a premium of approximately 14.78% over the average closing price of HK$0.3485 per Share for the last ten consecutive trading days up to and including the Last Trading Day; and

(iv) a premium of approximately 113.90% over the closing price of HK$0.187 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Consideration Shares will be allotted and issued on the Completion Date pursuant to the specific mandate to be sought at the EGM.

In order to assess the fairness and reasonableness of the Issue Price, we have reviewed the placements announced by other companies listed on the Stock Exchange (the "Placement Comparables") during the last one month preceding the Last Trading Day. While the proceeds raised from the Placement Comparables might not be applied for transactions the nature of which is similar to the Acquisition and the selected companies might not have the same principal businesses as those of the Company, we are generally of the view that the Placement Comparables are able to provide a relevant and appropriate reference for our analysis of the Issue Price on the grounds that the issue price of listed securities is often determined by reference to prevailing market condition. In addition, for the purpose of objective analysis, our selection criteria would also be able to provide a reasonable number of comparables. The references of placing prices to the closing prices of the Placement Comparables are set out as below.

Date of announcement	Stock Code	Company	(Discount)/ Premium to/ over the closing price on the last trading day	(Discount)/ Premium to/ over the average closing price for the last 5 trading days up to and including the last trading day	(Discount)/ Premium to/ over the average closing price for the last 10 trading days up to and including the last trading day
4 Dec 2007	00036	Far East Holdings International Limited	(16.27%)	(19.65%)	(27.75%)
4 Dec 2007	00862	New World Mobile Holdings Limited	(13.04%)	(9.64%)	(8.95%)
7 Dec 2007	00629	Yue Da Holdings Limited	(16.39%)	(11.60%)	(6.49%)
9 Dec 2007	02366	Qin Jia Yuan Media Services Company Limited	0.00%	N/A	(2.15%)
10 Dec 2007	00193	Capital Estate Limited	(12.00%)	(11.29%)	(12.70%)
10 Dec 2007	00959	A-Max Holdings Limited	(6.50%)	(9.10%)	N/A
11 Dec 2007	01004	Rising Development Holdings Limited	(15.52%)	(19.76%)	(22.14%)
12 Dec 2007	08085	New Chinese Medicine Holdings Limited	(13.00%)	(12.30%)	(10.40%)
13 Dec 2007	00326	China Star Entertainment Limited	(11.76%)	(11.11%)	(13.67%)
14 Dec 2007	00433	Sun Man Tai Holdings Company Limited	(7.69%)	(19.14%)	(22.28%)
17 Dec 2007	01862	Sino Gold Mining Limited	(4.40%)	(5.40%)	N/A
17 Dec 2007	00575	Regent Pacific Group Limited	(4.68%)	N/A	(4.84%)
18 Dec 2007	00161	Catic Shenzhen Holdings Limited	(6.98%)	(6.63%)	(5.20%)

Date of announcement	Stock Code	Company	(Discount)/ Premium to/ over the closing price on the last trading day	(Discount)/ Premium to/ over the average closing price for the last 5 trading days up to and including the last trading day	(Discount)/ Premium to/ over the average closing price for the last 10 trading days up to and including the last trading day
19 Dec 2007	08299	Espco Technology Holdings Limited	(18.18%)	(6.25%)	(7.53%)
20 Dec 2007	00600	Honesty Treasure International Holdings Limited	(7.87%)	(3.76%)	(8.17%)
27 Dec 2007	00925	Peaktop International Holdings Limited	(18.60%)	(15.05%)	(13.58%)
3 Jan 2008	00901	Radford Capital Investment Limited	1.11%	(0.65%)	N/A
8 Jan 2008	08141	Inspur International Limited	(10.71%)	(5.45%)	(0.48%)
14 Jan 2008	08128	IIN International Limited	(7.40%)	(3.10%)	(3.50%)
29 Jan 2008	02324	Sino Katalytics Investment Corporation	(5.41%)	(6.67%)	N/A
Average			*(9.76%)*	*(9.81%)*	*(10.61%)*
23 Jan 2008	**8071**	**Company**	**2.56%**	**11.42%**	**14.78%**

Source: website of the Stock Exchange – www.hkex.com.hk

The above table shows that out of the total of 20 Placement Comparables, 18 Placement Comparables had the placing prices set at a discount to the closing prices as at the respective last trading days, one Placement Comparable had the placing price set at a premium of 1.11% over the closing price as at the last trading day, and one Placement Comparable had the placing price equal to the closing price as at the last trading day. On the other hand, all the Placement Comparables (except those companies did not provide for the corresponding information) had their placing prices set at discount to their average closing prices for the last five and/or ten trading days up to and including the last trading days. In view of this, we consider that the Issue Price, which represents a premium over the closing price of the Share as at the Last Trading Day, the average closing price for the last five and ten trading days up to and including the

Last Trading Day, is fair and reasonable. Accordingly, we also consider that the issue of the Consideration Shares, as part of the payment terms under the Agreement, to be in the interests of the Company and the Shareholders as a whole.

5.5 The Convertible Bonds

As set out in the Letter from the Board, the Convertible Bonds is interest-free and have a maturity of five years with the principal amount up to HK$1,561.74 million. The Conversion Price will be the same as the Issue Price of the Consideration Shares. The Conversion Price was determined by the Purchaser and the Vendor on an arm's length basis with reference to the current market price of the Shares and the terms of the Convertible Bonds. The issue of the Conversion Shares will be made pursuant to the Specific Mandate to be sought at the EGM.

Pursuant to the Agreement and the terms and conditions of the Convertible Bonds, whether there is any Fund Raising Exercise or not, the number of Consideration Shares and Conversion Shares to be issued together with the Shares already held by the Vendor and parties acting in concert with it shall not exceed 29% of the share capital of the Company as enlarged by the issue of the Consideration Shares and the Conversion Shares.

In order to assess the fairness and reasonableness of the principal terms of the Convertible Bonds, we have identified, to our best knowledge, all those issue of convertible bonds or notes with principal amount over HK$1,000 million by companies listed on the Stock Exchange for the three months period prior and up to the Last Trading Day (the "CB Comparables"). As the terms of a convertible note/bond are usually determined by reference to prevailing market condition, we consider that such time frame is appropriate for the purposes of our comparison which would also provide a reasonable number of comparables. Details of our findings on the CB Comparables are summarised in the table below:

Date of announcement	Company (stock code)	Principle amount (HK$ million)	Interest (per annum)	Maturity (approximate in years)	Premium/ (Discount) represented by conversion price over/to closing price of shares on last trading day prior to the relevant announcement (%)	Premium/ (Discount) represented by conversion price over/to closing price of shares on last ten trading day prior to the relevant announcement (%)
26.06.2007	Signal Media and Communications Holding Limited (2362)	1,464.0	Nil	5.0	(33.30)	Not disclosed
11.07.2007	Freeman Corporation Limited (279)	1,500.0	Nil	3.7	(26.10)	(31.20)
25.07.2007	Xinyu Hengdeli Holdings Limited (3389)	RMB1,150.0 million (equivalent to approximately HK$1,277.8 million)	Nil	5.0	45.26	55.16
30.08.2007	China Strategic Holdings Limited (235)	1,320.0	Nil	3.3	(13.16)	(20.27)
11.09.2007	Chi Cheung Investment Company Limited (112)	18,500.0	0.5%	3.0	(10.10)	(9.50)
19.09.2007	China Motion Telecom International Limited (989)	1,898.7	1.5%	5.0	(54.50)	(43.50)

Date of announcement	Company (stock code)	Principle amount (HK$ million)	Interest (per annum)	Maturity (approximate in years)	Premium/ (Discount) represented by conversion price over/to closing price of shares on last trading day prior to the relevant announcement (%)	Premium/ (Discount) represented by conversion price over/to closing price of shares on last ten trading day prior to the relevant announcement (%)
12.10.2007	Fu Ji Food and Catering Services Holdings Limited (1175)	RMB1,500.0 million (equivalent to approximately HK$1,666.7 million)	Nil	3.0	30.00	33.25
23.10.2007	China Green (Holdings) Limited (904)	RMB1,000.0 million (equivalent to approximately HK$1,111.1 million)	Nil	3.0	35.00	29.90
03.12.2007	Pacific Basin Shipping Limited (2343)	USD350.0 million (equivalent to approximately HK$2,725.0 million)	3.3%	5.2	27.00	31.40
07.12.2007	China Rise International Holdings Limited (723)	1.092.0	1.5%	5.0	(7.14)	(8.29)
Average				*4.12*	*(0.70)*	*4.11*
23.01.2008	**Company**	**1,561.7**	**Nil**	**5.0**	**2.56**	**14.78**

Source: website of the Stock Exchange – www.hkex.com.hk

5.5.1 Interest rate

As shown in the above table, the interest rates of the CB Comparables range from nil to 3.3% per annum. We also notice that out of the total 10 CB Comparables, six of them carry no interest. We are of the view that the zero coupon rate for the Convertible Bonds is in line with the market practice and is fair and reasonable so far as the Independent Shareholders are concerned. In view of the current financial position of the Group, we consider that it is prudent for the Company to finance the Acquisition by issuing the Convertible Bonds with zero coupon rate which will not result in any cash outflows of the Group until the maturity of the Convertible Bonds.

5.5.2 Maturity

The CB Comparables have a maturity ranging from about three years to five years, with an average maturity of about 4.1 years. As the maturity of the Convertible Bonds is five years which is in line with the range for the CB Comparables and is slightly above their average, we consider the maturity of the Convertible Bonds is fair and reasonable so far as the Independent Shareholders are concerned.

5.5.3 Conversion Price

As shown in the above table, six CB Comparables have the conversion prices which represent a discount to their respective closing prices as at the last trading day as well as the respective average closing prices for the ten days up to and including the last trading day. On the other hand, four CB Comparables have the conversion prices which represent a premium over their respective closing prices as at the last trading day as well as the respective average closing prices for the ten days up to and including the last trading day. On average, the conversion price of the CB Comparables represent a slight discount of approximately 0.7% to the closing price of the shares as at the last trading day and a premium of approximately 4.1% over the average closing prices for the ten days up to and including the last trading day. In the present case, the Conversion Price, which is the same as the Issue Price, represents a premium over both the closing price per Shares as the Last Trading Day and the average closing prices per Share for the last ten trading days up to and including the Last Trading Day. When compared to the average discount/premium in the case of the CB Comparables, the premiums as represented by the Conversion Price over the closing price as the Last Trading Day and the average closing prices per Share for the last ten trading days up to and including the Last Trading Day appear to be more favourable to the Company as such premiums are substantially higher than the respective average percentage for the CB Comparables. On this basis, we are of the view that the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned.

In summary, given the fact that (i) the issue of the Consideration Shares alone may not be able to satisfy the Consideration in full; (ii) the Conversion Price, which is the same as the Issue Price, represents a premium over the closing price per Shares as the Last Trading Day as well as the average closing prices per Share for the last five and ten trading days up to and including the Last Trading Day; (iii) the Convertible Bonds do not carry any interest and therefore do not have any adverse impact on the cash flow of the Group until maturity; (iv) the Convertible Bonds may enhance the capital base of the Company when conversion takes place; (v) the terms of the Convertible Bonds appear to be in line with those prevailing in the market when compared to the recent issues of the convertible bonds by other listed companies of the Stock Exchange; and (vi) the benefits expected to be brought by the Acquisition, we consider the issue of the Convertible Bonds, as part of the payment terms under the Agreement, to be in the interests of the Company and the Shareholders as a whole and the terms of the Convertible Bonds are fair and reasonable.

5.6 Fund Raising Exercise

As set out in the Letter from the Board, the Company plans to conduct a fund raising exercise by issue of equity so as to fund part of the Consideration. It is the plan of the Company to issue not more than 6,133,000,000 Shares at a price of not less than HK$0.10 per Share (in any event, not more than 20% discount (if any) to the (i) average closing price of the Shares for the five consecutive trading days before the date of the relevant placing agreement; or (ii) the closing price of the Shares for the last trading day before the date of the relevant placing agreement, whichever is higher) to parties independent of the Company and connected persons of the Company and its subsidiaries. The Placing Mandate will be sought at the EGM in this respect. The proposed minimum issue price under the Placing Mandate of HK$0.10 per Share represents:

(i) a discount of approximately 74.36% to the closing price of HK$0.39 per Share as quoted on the Stock Exchange on 4 January 2008, being the date of the Agreement;

(ii) a discount of approximately 72.14% to the average closing prices of approximately HK$0.359 per Share for the last five consecutive trading days up to and including 4 January 2008, being the date of the Agreement; and

(iii) a discount of approximately 46.52% to the closing price of HK$0.187 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

As set out in the Letter from the Board, the exact number of Shares to be issued under the Fund Raising Exercise, the actual issue price and other terms of the Fund Raising Exercise are subject to agreement(s) to be entered into between the Company and the placing agent(s) of the Company. Subject to the grant of the Placing Mandate at the EGM, it is expected that the Company will shortly after the grant of the Placing Mandate, negotiate and finalise the terms of the Fund Raising Exercise with one or more placing agents. As stipulated in the Agreement, the Company will apply 90% of the net proceeds from the Fund Raising Exercise to fund part of the Consideration with the remaining 10% as general working capital. The Placing Mandate will expire on the earlier of 31 December 2008 or the completion of the Acquisition.

As mentioned above, in the event that the net proceeds obtained from the Fund Raising Exercise are not sufficient to satisfy the remaining balance of the Consideration (being HK$1,735 million), the Company will issue the Consideration Shares and the Convertible Bonds to the Vendor on Completion to satisfy such remaining balance of the Consideration. While the Issue Price and the Conversion Price have been both fixed at HK$0.40 per Consideration Share/Conversion Share, the minimum issue price under the Placing Mandate is proposed to be HK$0.10 per Share, which is significantly lower than both the Issue Price and the Conversion Price. Since 90% of the net proceeds from the Fund Raising Exercise would be applied as cash payment payable to the Vendor as part of the Consideration which might have alternatively been satisfied by the issue of the Consideration Shares and the Convertible Bonds, we do not consider the proposed minimum issue price of HK$0.10 per Share under the Placing Mandate to be in the interest of the Company. The Company would have issued more new Shares under the Fund Raising Exercise if the issue price of the Shares is significantly below HK$0.40 per Share. Accordingly, for the purpose of funding the payment obligation for the Consideration, we do not consider the Placing Mandate to be in the interests of the Company and the Shareholders as a whole. We are of the view that the terms of the Placing Mandate are not fair or reasonable.

6. Possible financial effect as a result of the Acquisition

6.1 Accounting effect

Following Completion, each of the Target and its direct and indirect subsidiaries (i.e. the Subsidiary and the CJV) will become a subsidiary of the Company and their financial results will be consolidated into the Group's financial results with the corresponding treatment of the equity interests not owned by the Group as minority interests in its consolidated financial statements.

In addition, the implementation of the Acquisition is expected to give rise to goodwill. Goodwill represents the excess of the cost of investments (i.e. the Consideration of HK$1,800 million) over the fair value of the net identifiable assets of the Target Group to be acquired at Completion. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The extent to which any goodwill impairment provision may be required in the Group's future financial statement would depend on the assessment as to whether any impairment on goodwill may be necessary.

6.2 Cash position and gearing

Based on the Company's audited consolidated balance sheet as at 31 December 2007 set out in Appendix I to the Circular, the Group had cash and cash equivalents of approximately HK$74.0 million as at 31 December 2007. Given the total current assets of approximately HK$74.4 million and total current liabilities of approximately HK$4.3 million as at 31 December 2007, the Group had a net-current-assets position of approximately HK$70.2 million or a current ratio of approximately 17.3. In addition, the gearing ratio of the Group as at 31 December 2007 was approximately 4.6%, as represented by the Group's total borrowings of approximately HK$4.2 million over its net assets of approximately HK$89.4 million.

Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to the Circular, prepared on the assumptions that (i) the Acquisition had been completed as at 31 December 2007; (ii) there was no Fund Raising Exercise; (iii) a total of 424,800,432 Consideration Shares were issued to the Vendor at Completion such that the total Shares beneficially owned by the Vendor and parties acting in concert with it would not exceed 29% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares; and (iv) the remaining portion of the Consideration had been satisfied in full by the issue of the Convertible Bonds at Completion without any conversion taking place as at 31 December 2007, the cash and cash equivalents of the Enlarged Group would decease to approximately HK$5.7 million as a result of the settlement of the cash portion of the Consideration at HK$65.0 million pursuant to the terms of the Agreement as well as the cash settlement of the remaining balance of the Consideration in the amount of HK$3.3 million after deducting portions attributable to the Consideration Shares and the Convertible Bonds. On the same basis, the total current assets and the total current liabilities of the Enlarged Group would become approximately HK$6.1 million and HK$4.3 million, respectively, representing a net-current-assets position of approximately HK$1.8 million or a net current ratio of approximately 1.4. As a result of the issue of the Convertible Bonds, the total borrowings of the Enlarged Group would increase significantly to approximately HK$950.2 million and the gearing ratio of the Enlarged Group would amount to approximately 94.1%.

While the gearing ratio of the Enlarged Group would increase significantly as a result of the issue of the Convertible Bonds, such Convertible Bonds, which are interest-free and have a maturity of five years, are not expected to have any adverse impact on the cash flow of the Enlarged Group in the near future. On the other hand, the capital base of the Company will be enhanced as a result of any conversion of the Convertible Bonds. Given the expected benefits to be brought by the Acquisition as discussed above, we consider that the effect of the Acquisition on the gearing ratio of the Enlarged Group to be acceptable.

7. Potential dilution effect on the shareholdings of the Independent Shareholders

As at the Latest Practicable Date, the Independent Shareholders were interested in approximately 84.19% of the issued share capital of the Company. If the Acquisition is approved and becomes unconditional and there is no Fund Raising Exercise, the Company will issue a maximum of 433,150,000 Consideration Shares to the Vendor and parties acting in concert with it, representing approximately 17.80% of the existing issued share capital of the Company or approximately 15.13% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. On this basis, the aggregate shareholding interests of the Independent Shareholders in the Company will be reduced to approximately 71.45%, representing a dilution of approximately 15.13% from their existing holdings of approximately 84.19%. Furthermore, on the assumption that the Convertible Bonds are converted in full with the issue of additional 3,904,350,000 Conversion Shares, the aggregate shareholding interests of the Independent Shareholders in the Company will be reduced further to approximately 30.24%, representing an overall dilution of approximately 64.08% from their existing holdings of approximately 84.19%.

Having considered (i) the existing loss-making business operations; (ii) the Acquisition represents an opportunity for the Company to diversify into the gold mining business in the PRC the prospects of which appears to be promising; (iii) the Issue Price for the Consideration Shares is fair and reasonable having taken into account the current market prices of the Shares; and (iv) it may be very difficult, if not impossible, for the Group to use other fund raising exercises such as rights issue or open offer in light of the significant amount of the funds required for the Acquisition as well as the necessity of the underwriting arrangement to be in place, we are of the view that the dilution on the shareholding interests of the Independent Shareholders in the Company is acceptable.

8. The Supply Agreement

8.1 Background information and the principal terms of the Supply Agreement

The Supply Agreement was entered into between the CJV and the Ore Supplier on 19 December 2007 in respect of the supply of all the ores extracted from the Mine to the CJV. Mining activities have been conducted in the Mine which is situated at the northwestern corner of the Exploration Area.

The CJV intends to conduct processing of minerals available from the Mine. We understand from the Directors that although the CJV has not conducted any processing of minerals in the past, the CJV will make an application to the relevant PRC authorities to amend its principal activities for the inclusion of purchasing and processing of gold minerals.

The Supply Agreement has a term of about three years expiring on 31 December 2010. Details of the terms of the Supply Agreement were set out in the Letter from the Board. In particular, the Mine is a gold mining site with an area of 0.43 sq.km and is located adjacent to the Exploration Area. According to the Project Valuation Report, the Ore Supplier holds a mining operation permit for mining in the Mine.

Pursuant to the Supply Agreement, the ores extracted from the Mine will be supplied to the CJV of RMB12 (approximately HK$12.63) per ton which was determined by the contracting parties on arm's length negotiations with reference to the total estimated costs per ton to be incurred by the Ore Supplier including but not limited to the mining cost as well as the management expense in relation to the Mine. The Ore Supplier has agreed that the amount of ores to be supplied to the CJV shall not be less than 1.5 million tons, 2.25 million tons and 3 million tons for each of the period commencing from the date of the Supply Agreement and ending on the year ending 31 December 2008, and the two years ending 31 December 2009 and 2010, respectively. As advised by the Directors, such amounts of ores to be supplied to the CJV by the Ore Supplier during the term of the Supply Agreement have been arrived at after taking into account the size of the Mine, the mining capacity of the Ore Supplier as well as the expected processing capacity of the CJV during the relevant period. The Ore Supplier has also agreed that the mineral contents in the ores to be supplied to the CJV should not be less than 1.7 g per ton. In addition, the Ore Supplier has agreed to pledge the mining right on the Mine to the CJV to guarantee its obligations under the Supply Agreement.

8.2 *Rationale for determining the maximum value of the transactions contemplated under the Supply Agreement*

Pursuant to Rule 20.35(2) of the GEM Listing Rules, the transactions contemplated under the Supply Agreement during each of the three financial years ending 31 December 2008, 2009 and 2010 will be subject to an annual cap which must be expressed in terms of monetary value. The proposed maximum aggregate values, or "caps", of the transactions contemplated under the Supply Agreement for each of the period commencing from the date of the Supply Agreement and ending on the year ending 31 December 2008 and the two years ending 31 December 2009 and 2010 are summarised below:–

	From the date of the Supply Agreement (i.e. 19 December 2007) to 31 December 2008	For the year ending 31 December 2009	For the year ending 31 December 2010
Maximum amount of ores to be supplied to the CJV	1.8 million tons	2.7 million tons	3.6 million tons
Maximum value or annual cap (based on the selling price of RMB12 per ton)	RMB21.6 million (about HK$22.74 million)	RMB32.4 million (about HK$34.11 million)	RMB43.2 million (about HK$45.47 million)

As mentioned above, having considered the size of the Mine, the mining capacity of the Ore Supplier as well as the expected processing capacity of the CJV, the contracting parties to the Supply Agreement have agreed that the amount of ores to be supplied to the CJV by the Ore Supplier shall not be less than 1.5 million tons, 2.25 million tons and 3 million tons for each of the period commencing from the date of the Supply Agreement and ending on the year ending 31 December 2008, and the two years ending 31 December 2009 and 2010, respectively. Having taken into consideration the selling price of RMB12 per ton and a buffer of 20% for the increase in the amount of ores to be supplied to the CJV during the relevant period, the Company proposes that, for the purpose of compliance with Rule 20.35(2) of the GEM Listing Rules, the transactions contemplated under the Supply Agreement during each of the three financial years will be subject to an annual cap of RMB21.6 million, RMB32.4 million and HK$43.2 million, respectively.

As advised by the Directors, the ores extracted by the Ore Supplier have never been supplied to the CJV or to any independent third parties. In addition, based on our discussion with the Directors and the Valuer, we understand that in common practices, the mining operators normally process the ores extracted by themselves or pay process fees to other parties to process the ores. If the ores are to be supplied to other parties for processing, such parties are usually related parties and the selling price of the ores will be based on the condition of the ores and other factors such as relationship between the mining operators and the processors. Generally, there is no market reference price on the ores or on process fees.

As mentioned above, the Ore Supplier has agreed that the mineral contents in the ores to be supplied to the CJV should not be less than 1.7 g per ton. As advised by the Directors, having taken into account an average yield of about 75% from further processing the mineral contents into gold, the CJV is expected to produce approximately 1.3 g of gold out of each ton of the ores to be supplied by the Ore Supplier under the Supply Agreement. We have further been advised by the Directors that the CJV will be responsible for the processing of the ores purchased from the Ore Supplier under the Supply Agreement and the Company currently estimates that the total costs (including the purchase price of the ores, the transportation cost, the process cost, the administration expenses and the relevant tax such as resource tax, sales tax and value added tax) will be approximately RMB57 on a cost per gram of gold basis.

Based on the current market price of gold of over RMB200 per gram, the Company currently expects that the revenue generated from the sale of gold which is processed from the ores supplied by the Ore Supplier under the Supply Agreement will be substantially higher than the total costs (including the consideration to be paid to the Ore Supplier for the supply of ores and the processing costs). Accordingly, although there is no market reference price on the ores or on process fees, we are of the view that it is still in the commercial interest of the Company to enter into the Supply Agreement as the transactions to be contemplated under the Supply Agreement is expected to have a favourable impact on the revenue and profit of the Company. In addition, whilst the CJV is still exploring mines in the Exploration Area and therefore has not yet been able to generate cash inflow, the entering into of the Supply Agreement will enable the CJV to commence revenue-generating business within a short period of time. As such, we are of the view that the terms of the Supply Agreement are fair and reasonable.

8.3 Conditions of the annual caps under the Supply Agreement

There are certain conditions of the annual cap pursuant to the GEM Listing Rules, in particular, the restriction of the value of the transactions contemplated under the Supply Agreement by way of the annual cap for the three financial years ending 31 December 2008, 2009 and 2010 and the annual review by the independent non-executive Directors of the terms of such transactions and the relevant annual caps not being exceeded, details of which must be included in the Company's subsequent published annual reports and accounts. Also, pursuant to the GEM Listing Rules, each year the auditors of the Company must provide a letter to the Board confirming, among other things, that the transactions contemplated under the Supply Agreement are conducted in accordance with its terms and that the relevant annual caps not being exceeded. In addition, pursuant to the GEM Listing Rules, the Company shall publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or its auditors will not be able to confirm the terms of such transactions or the relevant annual caps not being exceeded. We are of the view that there are appropriate measures in place to govern the conduct of the transactions to be contemplated under the Supply Agreement and safeguard the interests of the Independent Shareholders.

V. RECOMMENDATIONS

Having considered the principal factors and reasons, in particular taking into account the followings:

(i) the Company's asset value and equity base (a major portion of the Consideration will be satisfied by the issue of new Shares) will be enhanced;

(ii) the Company can diversify into gold mining business in the PRC which has a strong demand for gold;

(iii) income and cash flow will be generated from the gold mining business and the trading activities in gold; and

(iv) it is in the commercial interest of the Company to enter into the Supply Agreement as the transactions to be contemplated thereunder is expected to have a favourable impact on the revenue and profit of the Company,

We are in the opinion that the Acquisition (including the issue of the Consideration Shares and the Convertible Bonds) and the Continuing Connected Transaction are in the interests of the Company and the Shareholders as a whole and the respective terms of the Acquisition (including the issue of the Consideration Shares and the Convertible Bonds), the Continuing Connected Transaction and the relevant annual caps are fair and reasonable. Therefore, we would advise the Independent Board Committee to recommend the Independent Shareholders that they should vote in favour of the relevant resolutions to approve the Acquisition (including the issue of the Consideration Shares and the Convertible Bonds), the Continuing Connected Transaction and the relevant annual caps at the EGM.

As to the Placing Mandate, in view of the fact that the proposed minimum issue price of HK$0.10 per Share under the Placing Mandate is significantly lower than both the Issue Price and the Conversion Price and 90% of the relevant net proceeds would be applied to fund the Consideration, we are of the view that the Placing Mandate is not in the interests of the Company and the Shareholders as a whole and that the terms of the Placing Mandate are not fair or reasonable. Therefore, we would advise the Independent Board Committee to recommend the Independent Shareholders that they should vote against the relevant resolution in respect of the Placing Mandate at the EGM.

Yours faithfully
For and on behalf of
Access Capital Limited
Alexander Tai
Principal Director

1. SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last three financial years, as extracted from the audited financial statements of the Group for the relevant year, is set out below.

Consolidated Income Statements

For the year ended 31 December 2005, 2006 and 2007

	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	630	964	2,609
Cost of sales	(566)	(884)	(1,811)
Gross profit/(loss)	64	80	798
Other operating income	39	50	555
Selling and distribution expenses	–	(200)	(285)
Administrative expenses	(2,742)	(3,069)	(18,641)
Operating loss	(2,639)	(3,139)	(17,573)
Finance costs	(1,912)	(2,035)	(1,581)
Loss before income tax	(4,551)	(5,174)	(19,154)
Income tax expense	–	–	–
Loss for the year	(4,551)	(5,174)	(19,154)
Attributable to:			
Equity holders of the Company	(4,526)	(5,149)	(19,154)
Minority interests	(25)	(25)	–
Loss for the year	(4,551)	(5,174)	(19,154)
Loss per share for loss attributable to the equity holders of the Company during the year		(restated)	
– Basic	(HK6.0 cents)	(HK0.34 cent)	(HK1.0 cent)
– Diluted	N/A	N/A	N/A

Consolidated Balance Sheets
As at 31 December 2005, 2006 and 2007

	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	60	38	3,576
Prepaid lease payments	–	–	16,189
	60	38	19,765
Current assets			
Inventories	–	65	65
Trade receivables	187	14	132
Prepayments, deposits and other receivables	165	115	178
Cash and cash equivalents	1,854	675	74,043
	2,206	869	74,418
Current liabilities			
Bank overdrafts	–	–	380
Trade payables	30	–	–
Other payables and accrued expenses	801	739	603
Loans from a shareholder	12,089	23,982	3,275
Convertible bonds	7,980	–	–
	20,900	24,721	4,258
Net current (liabilities)/assets	(18,694)	(23,852)	70,160
Total assets less current liabilities	(18,634)	(23,814)	89,925
Non-current liabilities			
Due to minority shareholders of subsidiaries	499	474	502
	499	474	502
Net (liabilities)/assets	(19,133)	(24,288)	89,423
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	37,686	754	1,181
Reserves	(56,819)	(25,042)	88,242
Total equity	(19,133)	(24,288)	89,423

2. FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2007

Set out below are the audited consolidated financial statements of the Group together with accompany notes as extracted from the annual report of the Company for the year ended 31 December 2007:

Consolidated income statement
For the year ended 31 December 2007

	Notes	**2007** *HK$'000*	**2006** *HK$'000*
Revenue	*6*	2,609	964
Cost of sales		(1,811)	(884)
Gross profit		798	80
Other operating income	*7*	555	50
Selling and distribution expenses		(285)	(200)
Administrative expenses		(18,641)	(3,069)
Operating loss		(17,573)	(3,139)
Finance costs	*8*	(1,581)	(2,035)
Loss before income tax	*9*	(19,154)	(5,174)
Income tax expense	*10*	–	–
Loss for the year		(19,154)	(5,174)
Attributable to:			
Equity holders of the Company	*11*	(19,154)	(5,149)
Minority interests		–	(25)
Loss for the year		(19,154)	(5,174)
Loss per share for loss attributable to the equity holders of the Company during the year	*12*		
			(restated)
– Basic		(HK1.0 cent)	(HK0.34 cent)
– Diluted		N/A	N/A

Consolidated balance sheet

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	3,576	38
Prepaid lease payments	16	16,189	–
		19,765	38
Current assets			
Inventories	18	65	65
Trade receivables	19	132	14
Prepayments, deposits and other receivables		178	115
Cash and bank balances	20	74,043	675
		74,418	869
Current liabilities			
Bank overdrafts	20	380	–
Other payables and accrued expenses		603	739
Loans from a shareholder	21	3,275	23,982
		4,258	24,721
Net current assets/(liabilities)		70,160	(23,852)
Total assets less current liabilities		89,925	(23,814)
Non-current liabilities			
Due to minority shareholders of subsidiaries	22	502	474
Net assets/(liabilities)		89,423	(24,288)
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	23	1,181	754
Reserves	25	88,242	(25,042)
Total equity		89,423	(24,288)

Balance sheet
As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	283	–
Investments in subsidiaries	17	–	–
		283	–
Current assets			
Prepayments and other receivables		70	100
Cash and bank balances	20	6,666	471
		6,736	571
Current liabilities			
Other payables and accrued expenses		52	250
Due to a subsidiary	17	3	3
Loans from a shareholder	21	–	22,749
		55	23,002
Net current assets/(liabilities)		6,681	(22,431)
Total assets less current liabilities		6,964	(22,431)
EQUITY			
Share capital	23	1,181	754
Reserves	25	5,783	(23,185)
Total equity		6,964	(22,431)

Consolidated cash flow statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Loss before income tax		(19,154)	(5,174)
Adjustments for:			
Depreciation	9	92	50
Amortisation of prepaid lease payments	9	26	–
Share-based payment	9	11,433	–
Loss on disposal of property, plant and equipment	9	–	6
Interest income	7	(549)	(28)
Interest expense	8	1,581	2,035
Operating loss before working capital changes		(6,571)	(3,111)
Increase in inventories		–	(65)
(Increase)/Decrease in trade receivables		(118)	173
(Increase)/Decrease in prepayments, deposits and other receivables		(63)	50
Decrease in trade payables		–	(30)
Decrease in other payables and accrued expenses		(136)	(62)
Cash used in operations		(6,888)	(3,045)
Interest paid		(2,088)	(522)
Net cash used in operating activities		(8,976)	(3,567)
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		–	1
Purchases of property, plant and equipment		(3,630)	(35)
Upfront lease payments		(16,215)	–
Interest received		549	28
Increase in pledged deposit		(200)	–
Net cash used in investing activities		(19,496)	(6)

	Notes	2007 HK$'000	2006 HK$'000
Cash flows from financing activities			
Proceeds from issuance of share capital		124,987	–
Proceeds from issuance of warrants		358	–
Share issue expenses		(3,895)	–
Redemption of convertible bonds		–	(9,000)
Advance of loans from a shareholder		21,700	23,400
Repayment of loans to a shareholder		(41,900)	(12,000)
Net cash from financing activities		101,250	2,400
Net increase/(decrease) in cash and cash equivalents		72,778	(1,173)
Cash and cash equivalents at beginning of year		675	1,854
Effect of foreign exchange rate changes, net		10	(6)
Cash and cash equivalents at end of year		73,463	675
Analysis of balances of cash and cash equivalents	*20*		
Cash and bank balances		73,792	205
Short term time deposits		51	470
Bank overdrafts		(380)	–
		73,463	675

Consolidated statement of changes in equity

For the year ended 31 December 2007

	Equity attributable to equity holders of the Company								Minority interests	Total
	Share capital	Share premium account	Convertible bond equity reserve	Employee compensation reserve	Translation reserve	Warrant reserve	Accumulated losses	Subtotal		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	37,686	–	3,219	–	(15)	–	(60,023)	(19,133)	–	(19,133)
Currency translation (Net loss recognised directly in equity)	–	–	–	–	(6)	–	–	(6)	–	(6)
Loss for the year	–	–	–	–	–	–	(5,149)	(5,149)	(25)	(5,174)
Total recognised income and expense for the year	–	–	–	–	(6)	–	(5,149)	(5,155)	(25)	(5,180)
Par Value Reduction *(note 23)*	(36,932)	–	–	–	–	–	36,932	–	–	–
Capital contribution from a minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	25	25
Redemption of convertible bonds	–	–	(3,219)	–	–	–	3,219	–	–	–
At 31 December 2006 and 1 January 2007	754	–*	–*	–*	(21)*	–*	(25,021)*	(24,288)	–	(24,288)
Currency translation (Net loss recognised directly in equity)	–	–	–	–	(18)	–	–	(18)	–	(18)
Loss for the year	–	–	–	–	–	–	(19,154)	(19,154)	–	(19,154)
Total recognised income and expense for the year	–	–	–	–	(18)	–	(19,154)	(19,172)	–	(19,172)
Issuance of new shares	320	107,860	–	–	–	–	–	108,180	–	108,180
Share issue expense	–	(3,895)	–	–	–	–	–	(3,895)	–	(3,895)
Recognition of equity-settled share-based compensation	–	–	–	11,433	–	–	–	11,433	–	11,433
Proceeds from shares issued under share option scheme	58	7,385	–	(1,661)	–	–	–	5,782	–	5,782
Issuance of warrants	–	–	–	–	–	358	–	358	–	358
Exercise of warrants	49	11,075	–	–	–	(99)	–	11,025	–	11,025
At 31 December 2007	1,181	122,425*	–*	9,772*	(39)*	259*	(44,175)*	89,423	–	89,423

* *The aggregate amount of these reserve accounts is included in the consolidated reserves of HK$88,242,000 in surplus (2006: HK$25,042,000 in deficit) in the consolidated balance sheet.*

Notes to the Financial Statements
For the year ended 31 December 2007

1. CORPORATE INFORMATION

Glory Future Group Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (1998 Revision) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Group was involved in the following principal activities:

– provision of web page design and website maintenance services

– provision of staff secondment and system integration services

– provision of information technology consultancy services

– trading of hardware and software

The financial statements on pages 33 to 91 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules").

The financial statements for the year ended 31 December 2007 were approved by the board of directors on 25 February 2008.

2. ADOPTION OF NEW AND AMENDED HKFRSs

From 1 January 2007, the Group has adopted all the new and amended HKFRSs, which are first effective on 1 January 2007 and relevant to the Group. The adoption of these HKFRSs has given rise to additional disclosures as follows:

2.1 HKAS 1 (Amendment) – Capital Disclosures

In accordance with the HKAS 1 (Amendment) – Capital Disclosures, the Group now reports on its capital management objectives, policies and procedures in each annual financial report. The new disclosures that become necessary due to this change are detailed in note 32.

2.2 HKFRS 7 – Financial Instruments: Disclosures

HKFRS 7 – Financial Instruments: Disclosures is mandatory for reporting periods beginning on 1 January 2007 or later. The new standard replaces and amends the disclosure requirements previously set out in HKAS 32 Financial Instruments: Presentation and Disclosures and has been adopted by the Group in its financial statements for the year ended 31 December 2007. All disclosures relating to financial instruments including the comparative information have been updated to reflect the new requirements. In particular, the Group's financial statements now feature:

– a sensitivity analysis explaining the Group's market risk exposure in regard to its financial instruments, and

– a maturity analysis that shows the remaining contractual maturities of financial liabilities,

each as at the balance sheet date. The first-time application of HKFRS 7, however, has not resulted in any prior-period adjustments on cash flows, net income or balance sheet items.

The adoption of other new and amended HKFRSs did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these new and amended HKFRSs have been considered. The adoption of these new and amended HKFRSs did not result in any changes to the amounts or disclosures in these financial statements.

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company are currently assessing the impact of these HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKFRS 8	Operating segments[1]
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions[2]
HK(IFRIC)-Int 12	Service Concession Arrangements[3]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

Notes:

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 January 2008
4 Effective for annual periods beginning on or after 1 July 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

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

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

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

3.2 Basis of consolidation

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

3.3 Subsidiaries

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

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

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

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

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

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

3.4 Foreign currency translation

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

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

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 and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

3.5 Recognition of revenue

Revenue comprises the fair value for the sale of goods and rendering of services and the use by others of the Group's assets yielding interest and dividends, net of rebates and discounts and after eliminated sales within the Group. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

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

Sales of services are recognised in the accounting period in which the services are rendered.

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

3.6 Prepaid lease payments and property, plant and equipment

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

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

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

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

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

Medium term leasehold buildings in Hong Kong	Over the shorter of the lease terms or 50 years
Furniture, fixtures and fittings	2 – 5 years
Computer and office equipment	2 – 3 years
Motor vehicles	5 years

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

3.7 Impairment of assets

Property, plant and equipment, prepaid lease payments and investments in subsidiaries are subject to impairment testing.

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

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

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

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

3.8 Leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as an operating lease.

Payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

3.9 Financial assets

The Group's financial assets include trade receivables, other receivables and cash and cash equivalents.

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

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

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

At each balance sheet date, loans and receivables are reviewed to determine whether there is any objective evidence of impairment. If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

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

3.10 Inventories

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

3.11 Accounting for income taxes

Income tax comprises current and deferred tax.

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

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

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

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

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

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

3.12 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand as well as highly liquid investments such as bank deposits, less bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

3.13 Share capital

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

The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent of their incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.

3.14 Retirement benefit costs and short term employee benefits

(a) Retirement benefit costs

Retirement benefits to employees are provided through defined contribution plans.

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

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

(b) Short term employee benefits

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

(ii) Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

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

3.15 Share-based employee compensation

Under the transitional provision provided for under HKFRS 2, all share-based payment arrangements granted after 7 November 2002 and have not yet vested at 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

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

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

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are reallocated to share capital with any excess being recorded as share premium.

At the time when the share options are exercised, the amount previously recognised in employee compensation reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in employee compensation reserve will be transferred to retained profits.

3.16 Financial liabilities

The Group's financial liabilities include other payables and accrued expenses, loans from a shareholder and amounts due to minority shareholders of subsidiaries and bank borrowings.

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

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

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

3.17 Segment reporting

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

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment and prepaid lease payments.

The Group's main operations and customers are located in Hong Kong. Accordingly, no further analysis by geographical segment is provided.

3.18 Related parties

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

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

(i) controls, is controlled by, or is under common control with, the Group;

(ii) has an interest in the Group that gives it significant influence over the Group; or

(iii) has joint control over the Group;

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

(c) the party is an associate;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

4.1 Critical accounting estimates and assumptions

Valuation of share option granted

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

4.2 Critical judgements in applying the entity's accounting policies

Impairment of receivables

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

5. SEGMENT INFORMATION

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. Details of the business segments are summarised as follows:

(a) the web page design and website maintenance segment provides application and web page development work and monthly services for maintaining and updating website services;

(b) the staff secondment and system integration segment provides services including hardware and software management services;

(c) the information technology consultancy services segment provides services relating to the implementation and application of computer systems; and

(d) the trading of hardware and software segment provides trading of computer products in the PRC.

The Group's main operations and customers are located in Hong Kong. Accordingly, no further analysis by geographical segment is provided. There was no intersegment sale and transfer during the year (2006: Nil).

Business segments

The following table presents revenue, loss and asset, liability and expenditure information for the Group's business segments.

	Web page design and website maintenance		Staff secondment and system integration		Information technology consultancy services		Trading of hardware and software		Consolidated	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:										
Sales to external customers	5	7	316	128	100	829	2,188	–	2,609	964
Segment results	5	(12)	45	4	(9)	88	757	–	798	80
Bank interest income									549	28
Sundry income									6	22
Unallocated expenses									(18,926)	(3,269)
Operating loss									(17,573)	(3,139)
Finance costs									(1,581)	(2,035)
Loss before income tax									(19,154)	(5,174)
Income tax expense									–	–
Loss for the year									(19,154)	(5,174)
Segment assets	100	1	77	102	132	14	–	–	309	117
Unallocated assets									93,874	790
Total assets									94,183	907
Segment liabilities	265	248	–	–	–	–	–	–	265	248
Unallocated liabilities									4,495	24,947
Total liabilities									4,760	25,195
Other segment information:										
Depreciation	11	33	81	17	–	–	–	–	92	50
Capital expenditure	111	–	3,519	35	–	–	–	–	3,630	35

6. REVENUE AND TURNOVER

The Group's turnover represents the invoiced value of goods sold and services rendered arising from the principal activities of the Group during the year after eliminations of all significant intra-group transactions.

	2007	2006
	HK$'000	*HK$'000*
Web page design and website maintenance income	5	7
Staff secondment and system integration income	316	128
Information technology consultancy services income	100	829
Trading of hardware and software income	2,188	–
	2,609	964

7. OTHER OPERATING INCOME

	2007	2006
	HK$'000	*HK$'000*
Bank interest income on financial assets stated at amortised cost	549	28
Sundry income	6	22
	555	50

8. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest charges on financial liabilities stated at amortised cost:		
Loans from a shareholder wholly repayable within one year	1,581	745
Convertible bonds	–	1,290
	1,581	2,035

9. LOSS BEFORE INCOME TAX

	Notes	2007 HK$'000	2006 HK$'000
Loss before income tax is arrived at after charging:			
Cost of goods sold		1,432	–
Cost of services provided *		379	884
Auditors' remuneration		272	190
Employee benefit expense			
(excluding directors' emoluments)#	*13*	13,574	1,556
Directors' emoluments	*14*	664	150
		14,238	1,706
Minimum lease payments paid under			
operating leases in respect of:			
– Land and buildings		62	169
– Computer server		12	12
Loss on disposal of property, plant and equipment		–	6
Depreciation		92	50
Amortisation of prepaid lease payments		26	–

* *Cost of services provided included HK$253,000 (2006: HK$176,000) relating to employee benefit expense. This amount is included in both "Cost of services provided" and "Employee benefit expense" disclosed above.*

\# *Employee benefit expense (excluding directors' emoluments) included share based payment of HK$11,433,000 (2006: Nil) disclosed above.*

10. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2006: Nil).

No provision for PRC profits tax has been made on the financial statements for the current year as the assessable profits were wholly offset by tax losses brought forward (2006: Nil).

Reconciliation between tax expense and accounting loss at applicable tax rates is as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Loss before income tax	(19,154)	(5,174)
Tax at the statutory rate of 17.5% in Hong Kong (2006: 17.5%)	(3,352)	(905)
Effect of different tax rate of the other jurisdictions	75	(22)
Tax effect of non-deductible expenses	3,105	739
Tax effect of non-taxable revenue	(95)	(5)
Tax effect of temporary differences not recognised	(15)	(4)
Tax effect of tax losses not recognised	443	197
Tax effect of prior years' unrecognised tax losses utilised this year	(161)	–
Income tax expenses	–	–

As at 31 December 2007, the Group had unutilised tax loss of HK$2,927,000 (2006: HK$143,000) arising from a subsidiary operating outside Hong Kong which is available for setting off against future taxable profit of that subsidiary for 5 years and tax losses of HK$52,728,000 (2006: HK$50,242,000) arising from certain subsidiaries operating in Hong Kong which can be carried forward indefinitely. Deferred tax asset has not been recognised in respect of the tax losses that arose in subsidiaries that have been loss-making for some time.

As at 31 December 2007, no deferred tax liability has been provided as the Group and the Company did not have any significant temporary differences which give rise to a deferred tax liability (2006: Nil).

11. LOSS FOR THE YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss for the year attributable to the equity holders of the Company of HK$19,154,000 (2006: HK$5,149,000), a loss of HK$103,488,000 (2006: HK$4,031,000) has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to equity holders of the Company of approximately HK$19,154,000 (2006: HK$5,149,000) and on the weighted average number of 1,889,075,000 (2006: 1,507,440,000 (restated)) ordinary shares of the Company in issue during the year.

The weighted average number of shares for the purposes of calculating basic earnings per share for the year ended 31 December 2006 has been restated to reflect the share subdivision during the year as detailed in note 23(b) to the financial statements.

Diluted result per share for the years ended 31 December 2007 and 2006 have not been disclosed as the share options and warrants outstanding during these years were anti-dilutive.

13. EMPLOYEE BENEFIT EXPENSE (EXCLUDING DIRECTORS' EMOLUMENTS)

	2007	**2006**
	HK$'000	*HK$'000*
Wages and salaries	2,071	1,504
Share options granted to employees	11,433	–
Pension costs – defined contribution plans	70	52
	13,574	1,556

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENT

(a) Directors' emoluments

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

	Fees	**Salaries and allowances**	**Contributions to pension scheme**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2007				
Executive directors				
Choi Koon Ming	–	–	–	–
Ng Kam Yiu *(Note 7)*	–	–	–	–
Chow Yeung Tuen, Richard *(Note 10)*	–	390	12	402
Ng Kwok Chu, Winfield *(Note 1)*	–	40	1	41
Leung Ngai Man *(Note 4)*	–	–	–	–
Wu Wei Hua *(Note 5)*	–	–	–	–
Independent non-executive directors				
Wu Tak Lung *(Note 6)*	69	–	–	69
Phillip King *(Note 2)*	67	–	–	67
Ng Cheuk Tat, Ambrose *(Note 3)*	65	–	–	65
Chan Sing Fai *(Note 4)*	20	–	–	20
Liu Jia Qing *(Note 5)*	–	–	–	–
Leung Wai Cheung *(Note 1)*	–	–	–	–
	221	430	13	664

	Fees	Salaries and allowances	Contributions to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2006				
Executive directors				
Choi Koon Ming	–	–	–	–
Ng Kam Yiu *(Note 7)*	–	–	–	–
Chow Yeung Tuen, Richard	–	90	3	93
Non-executive director				
Ha Kee Choy, Eugene *(Note 8)*	–	–	–	–
Independent non-executive directors				
Wu Tak Lung	20	–	–	20
Phillip King	20	–	–	20
Ng Cheuk Tat, Ambrose	17	–	–	17
Ho Suk Yin, JP *(Note 9)*	–	–	–	–
	57	90	3	150

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2006: Nil).

Notes:

1. Appointed on 16 October 2007
2. Resigned on 20 November 2007
3. Resigned on 24 September 2007
4. Appointed on 2 April 2007
5. Appointed on 11 December 2007
6. Resigned on 11 December 2007
7. Retired on 29 June 2007
8. Retired on 28 June 2006
9. Resigned on 1 March 2006
10. Resigned on 15 February 2008

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one director (2006: Nil) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2006: five) highest paid individuals during the year are as follows:

	2007	2006
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits in kind	1,081	1,298
Contributions to pension scheme	31	45
	1,112	1,343

The emoluments fell within the following band:

	Number of individuals	
	2007	2006
Emolument band		
HK$Nil – HK$1,000,000	4	5

During the year, no emoluments were paid by the Group to the five highest paid employees or the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office (2006: Nil).

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Furniture, fixtures and fittings	Computer and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006					
Cost	–	446	2,138	–	2,584
Accumulated depreciation	–	(408)	(2,116)	–	(2,524)
Net book amount	–	38	22	–	60
Year ended 31 December 2006					
Opening net book amount	–	38	22	–	60
Additions	–	–	35	–	35
Disposal	–	(1)	(6)	–	(7)
Transfer	–	(8)	8	–	–
Depreciation	–	(27)	(23)	–	(50)
Closing net book amount	–	2	36	–	38

	Buildings	Furniture, fixtures and fittings	Computer and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2006					
Cost	–	7	355	–	362
Accumulated depreciation	–	(5)	(319)	–	(324)
Net book amount	–	2	36	–	38
Year ended 31 December 2007					
Opening net book amount	–	2	36	–	38
Additions	1,630	30	81	1,889	3,630
Depreciation	(3)	(4)	(33)	(52)	(92)
Closing net book amount	1,627	28	84	1,837	3,576
At 31 December 2007					
Cost	1,630	37	436	1,889	3,992
Accumulated depreciation	(3)	(9)	(352)	(52)	(416)
Net book amount	1,627	28	84	1,837	3,576

The buildings are located on land with medium term leases in Hong Kong.

Company

	Motor vehicles
	HK$'000
At 1 January 2006	
Cost	–
Accumulated depreciation	–
Net book amount	–
Year ended 31 December 2006	
Opening and closing net book amount	–
At 31 December 2006	
Cost	–
Accumulated depreciation	–
Net book amount	–

	Motor vehicles
	HK$'000
Year ended 31 December 2007	
Opening net book amount	–
Additions	309
Depreciation	(26)
Closing net book amount	283
At 31 December 2007	
Cost	309
Accumulated depreciation	(26)
Net book amount	283

16. PREPAID LEASE PAYMENTS

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

Group

	2007	**2006**
	HK$'000	*HK$'000*
Carrying amount at 1 January	–	–
Additions	16,215	–
Amortisation of prepaid lease payments	(26)	–
Carrying amount at 31 December	16,189	–

Group

	2007	**2006**
	HK$'000	*HK$'000*
In Hong Kong held on:		
Leases of between 10 to 50 years	16,189	–

17. INVESTMENTS IN SUBSIDIARIES/DUE TO A SUBSIDIARY

COMPANY

	2007	**2006**
	HK$'000	*HK$'000*
Unlisted shares, at cost	–	–
Due to a subsidiary (included under current liabilities)	(3)	(3)

The balance due to the subsidiary is unsecured, interest-free and repayable on demand.

Particulars of the subsidiaries at 31 December 2007 are as follows:

Name of subsidiary	Place of incorporation/ registration/ operations and kind of legal entity	Particulars of issued and fully paid share capital/ registered capital	Percentage of issued capital held by the Company		Principal activity
			Directly	Indirectly	
E-silkroad.net Corporation	British Virgin Islands, limited liability company	1 ordinary share of US$1	100%	–	Investment holding
E-silkroad.net Online Exhibition Limited	Hong Kong, limited liability company	10,000 ordinary shares of HK$1 each	–	100%	Development of e-commerce business, provision of web page design and website maintenance services
E-silkroad.net Online Commerce Limited	Hong Kong, limited liability company	10,000 ordinary shares of HK$1 each	–	100%	Dormant
Business Essence Technology Limited	British Virgin Islands, limited liability company	1 ordinary share of US$1	–	100%	Investment holding
E-silkroad.net Resources Limited	British Virgin Islands, limited liability company	1 ordinary share of US$1	–	100%	Dormant
中山市光彩未來軟件有限公司 ("Zhongshan GF")	PRC*	HK$8,000,000	–	95%	Provision of web page design services, application development and technical support services and trading of hardware and software
Leland Solutions Limited ("Leland")	Hong Kong, limited liability company	100,000 ordinary shares of HK$1 each	–	51%	Provision of web page design, website, maintenance, staff secondment, system integration and information technology consultancy services
Richtop Holdings Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	100%	–	Investment holding

Name of subsidiary	Place of incorporation/ registration/ operations and kind of legal entity	Particulars of issued and fully paid share capital/ registered capital	Percentage of issued capital held by the Company Directly	Indirectly	Principal activity
Greatest High Holdings Limited	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	100%	–	Investment holding
Merit Billion Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	100%	–	Investment holding

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

18. INVENTORIES

GROUP

	2007 *HK$'000*	**2006** *HK$'000*
Finished goods	65	65

19. TRADE RECEIVABLES

GROUP

	2007 *HK$'000*	**2006** *HK$'000*
Trade receivables	132	417
Less: allowance for impairment of receivables	–	(403)
Trade receivables – net	132	14

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movement in the provision for impairment of trade receivables is as follows:

	2007 *HK$'000*	**2006** *HK$'000*
At 1 January	403	403
Amount written off	(403)	–
At 31 December	–	403

At each of the balance sheet date, the Group's provision for impairment of trade receivables were individually determined based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision was recognised.

The Group allows a credit period from 30 days to 90 days to its trade customers. The following is an aged analysis of net trade receivables at the balance sheet date:

	2007	**2006**
	HK$'000	*HK$'000*
0 – 30 days	52	13
31 – 60 days	52	–
61 – 90 days	10	–
> 90 days	18	1
	132	14

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

	2007	**2006**
	HK$'000	*HK$'000*
Neither past due nor impaired	114	13
Past due but not impaired	18	1
	132	14

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

20. CASH AND BANK BALANCES/CASH AND CASH EQUIVALENTS

GROUP

	2007	**2006**
	HK$'000	*HK$'000*
Cash at banks and in hand	73,792	205
Short-term bank deposits	251	470
Cash and bank balances per consolidated balance sheet	74,043	675
Bank overdrafts	(380)	–
Pledged deposit*	(200)	–
Cash and cash equivalents per consolidated cash flow statement	73,463	675

* *As at 31 December 2007, a fixed deposit of HK$200,000 was pledged for obtaining the corporate card services (2006: Nil).*

COMPANY

	2007	2006
	HK$'000	*HK$'000*
Cash at banks and in hand	6,615	1
Short-term bank deposits	51	470
	6,666	471

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term bank deposits are made for varying periods of between one day and three months depending on the immediate cash requirement of the Group, and earn interest at the respective short-term time deposit rates ranging from 1.45% to 3.45% (2006: 3.30% to 3.75%) per annum. The carrying amounts of the cash and cash equivalents approximate their fair values.

Included in cash at banks and in hand of the Group is HK$665,000 (2006: HK$16,000) of bank balances denominated in Renminbi ("**RMB**") placed with banks in the PRC. RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

21. LOANS FROM A SHAREHOLDER

Pursuant to a loan agreement signed between the Company and Sun Wah Net Investment Limited ("**Sun Wah**"), a former substantial shareholder of the Company, dated 2 May 2006, the Company obtained a short-term loan of HK$12.2 million (the "**First Shareholder's Loan**") from Sun Wah which was mainly used to repay the outstanding principal of HK$11.4 million and accrued interest of the previous shareholder's loan. Thereafter, the balance of the fund from the First Shareholder's Loan in the amount of approximately HK$0.6 million was retained as working capital of the Group. The First Shareholder's Loan was unsecured, interest bearing at 5% per annum and was originally scheduled as repayable on 2 August 2006. The First Shareholder's Loan had not yet been repaid and Sun Wah did not demand for the repayment of the said loan as at 31 December 2006. As at 31 December 2006, the balance of the First Shareholder's Loan, at amortised cost using the effective interest method, was HK$12.6 million.

Pursuant to a loan agreement signed between a subsidiary of the Company and Sun Wah dated 12 June 2006, a short-term loan of HK$1.2 million was advanced from Sun Wah (the "**Second Shareholder's Loan**") partly for repayment of the principal of HK$0.6 million and accrued interest of the previous shareholder's loan. Thereafter, the balance of fund of the Second Shareholder's Loan of approximately HK$0.6 million was retained as the working capital of that subsidiary of the Company. The Second Shareholder's Loan was unsecured, interest-bearing at 5% per annum and was originally scheduled as repayable on 12 August 2006. The Second Shareholder's Loan had not yet been repaid as at 31 December 2006 and Sun Wah did not demand for the repayment of the said loan. As at 31 December 2006, the balance of the Second Shareholder's Loan at amortised cost using the effective interest method, was HK$1.2 million.

On 27 October 2006, Sun Wah granted a loan of HK$10 million to the Company (the "**Third Shareholder's Loan**") which was mainly used to repay the convertible bonds with a nominal value of HK$9 million issued to Sun Wah on 27 October 2003 together with the accrued interest incurred thereof. The Third Shareholder's Loan was unsecured, interest-bearing at 8% per annum and would be due and repayable on 26 October 2007. Sun Wah had confirmed that it would not demand repayment of the shareholder's loan of HK$10 million upon its maturity on 26 October 2007 unless the Group had sufficient financial ability to repay it. Sun Wah could extend the said loan, if necessary, beyond 31 March 2008. As at 31 December 2006, the balance of the Third Shareholder's Loan at amortised cost using the effective interest method, was HK$10.1 million. The Company has partly repaid for HK$4 million of the Third Shareholder's Loan on 1 August 2007 and the remaining balance on 12 September 2007.

Pursuant to a new loan agreement signed between the Company and Sun Wah dated 13 March 2007, the Company obtained a new loan of HK$18.5 million from Sun Wah (the "**Fourth Shareholder's Loan**") which was mainly used to repay the outstanding principal and accrued interest of the First Shareholder's Loan to the Company as mentioned above. The balance of the remaining Fourth Shareholder's Loan was retained as working capital of the Group. The Fourth Shareholder's Loan was unsecured, interest-bearing at 8% per annum and repayable on 15 May 2008. The Fourth Shareholder's Loan had been fully repaid by the Company on 16 October 2007.

Pursuant to another loan agreement signed between a subsidiary of the Company and Sun Wah dated 13 March 2007, a new loan of HK$3.2 million was advanced from Sun Wah (the "**Fifth Shareholder's Loan**") for repayment of the principal and accrued interest of the Second Shareholder's Loan as mentioned above. The balance of the remaining Fifth Shareholder's Loan was retained as working capital of the Group. The Fifth Shareholder's Loan was unsecured, interest-bearing at 8% per annum and repayable on 15 May 2008. Sun Wah had confirmed it would not demand repayment of the shareholder's loan of HK$3.2 million upon its maturity on 15 May 2008 unless the Group has sufficient financial ability to repay it. As at 31 December 2007, the balance of the Fifth Shareholder's Loan at amortised cost using the effective interest method, was approximately HK$3.3 million.

22. DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

Pursuant to a shareholder agreement signed between the Group and Sun Rise Int'l Trading Limited ("**Sun Rise**") dated 1 August 2005, both parties agreed and jointly established a new company, Leland, which was incorporated on 23 August 2005. The total issued and fully paid capital of Leland is HK$50,000. The Group and Sun Rise have 51% and 49% shareholding in Leland respectively. The Group and Sun Rise have mutually agreed to make a total investment commitment in Leland of not more than HK$250,000 (including the initial capital contribution). After the initial capital contribution of HK$50,000, the remaining investment commitment of HK$200,000 was contributed by the Group of HK$102,000 and Sun Rise of HK$98,000 by way of a long-term loan to Leland. The balance due to Sun Rise of HK$98,000 is unsecured, interest-free and not repayable within the next twelve months after the balance sheet date. On 1 December 2006, as agreed between the Group and Sun Rise, the issued share capital of Leland was increased from HK$50,000 to HK$100,000 by issuing additional 50,000 ordinary shares of HK$1 each. Sun Rise paid its contribution of approximately HK$25,000 by way of transfer from its shareholder's loan to Leland. Accordingly, the balance due to Sun Rise as at 31 December 2006 and 2007 was approximately HK$73,000. The shareholding ratio of the Group and Sun Rise in Leland remains unchanged.

The remaining amount of HK$429,000 is due to a minority shareholder of Zhongshan GF which is unsecured and interest-free. The minority shareholder has undertaken not to demand repayment within a period of twelve months from the balance sheet date.

The carrying amounts of the balances due to minority shareholders approximate their fair values.

23. SHARE CAPITAL

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

		Number of shares of HK$0.5 each		Number of shares of HK$0.01 each		Number of shares of HK$0.0005 each		Share capital	
		2007	2006	2007	2006	2007	2006	2007	2006
	Notes	*'000*	*'000*	*'000*	*'000*	*'000*	*'000*	*HK$'000*	*HK$'000*
Authorised:									
Ordinary shares at beginning of year		–	200,000	10,000,000	–	–	–	100,000	100,000
Par Value Reduction and Capital Restoration	*(a)*	–	(200,000)	–	10,000,000	–	–	–	–
Share Subdivision	*(b)*	–	–	(10,000,000)	–	200,000,000	–	–	–
Ordinary shares at end of year		–	–	–	10,000,000	200,000,000	–	100,000	100,000

		Number of shares of HK$0.5 each		Number of shares of HK$0.01 each		Number of shares of HK$0.0005 each		Share capital	
		2007	2006	2007	2006	2007	2006	2007	2006
	Notes	*'000*	*'000*	*'000*	*'000*	*'000*	*'000*	*HK$'000*	*HK$'000*
Issued and fully paid:									
Ordinary shares at beginning of year		–	75,372	75,372	–	–	–	754	37,686
Par Value Reduction	*(a)*	–	(75,372)	–	75,372	–	–	–	(36,932)
Issuance of new shares	*(c)*	–	–	13,567	–	367,695	–	320	–
Exercise of share options	*(d)*	–	–	2,085	–	74,400	–	58	–
Exercise of warrants	*(e)*	–	–	900	–	81,136	–	49	–
Share Subdivision	*(b)*	–	–	(91,924)	–	1,838,480	–	–	–
Ordinary shares at end of year		–	–	–	75,372	2,361,711	–	1,181	754

Note:

(a) Par Value Reduction and Capital Restoration

On 14 February 2006, the Company reduced the nominal value of each share from HK$0.50 to HK$0.01 ("**Par Value Reduction**") by cancellation of HK$0.49 paid up capital on each share. As a result of the Par Value Reduction, on the basis of 75,372,000 issued shares, an amount of approximately HK$36,932,000 from the share capital account was applied towards the elimination of part of the accumulated losses of the reserves. Upon the Par Value Reduction becoming effective on 14 February 2006, all the then authorised but unissued share capital of the Company was cancelled and the authorised share capital of the Company was immediately restored to the original amount of HK$100,000,000 ("**Capital Restoration**") by the creation of 9,800,000,000 new shares of HK$0.01 each.

(b) Share Subdivision

Pursuant to an ordinary resolution passed on 22 August 2007, with effect from 23 August 2007, one share of HK$0.01 each in the issued and unissued share capital of the Company were subdivided into twenty shares of HK$0.0005 each ("**Share Subdivision**"). The authorised share capital of the Company remained at HK$100,000,000 but was divided into 200,000,000,000 shares of HK$0.0005 each.

(c) Issuance of new shares

On 27 April 2007, the issued share capital of the Company was increased from approximately HK$754,000 to HK$889,000 by the issue of 13,566,960 ordinary shares of HK$0.01 each for cash at a placing price of HK$0.49 per share. The total proceeds and net proceeds, after deducting all related expenses, were HK$6,648,000 and HK$6,538,000 respectively. The Company has utilised the net proceeds (i) for repayment of the loans of the Group; and (ii) for general working capital of the Group.

On 28 September 2007, the Company through a placing agent, BNP Paribas Capital (Asia Pacific) Limited placed 255,000,000 ordinary shares of HK$0.0005 each at the placing price of HK$0.27 each. The gross proceeds and net proceeds from the placing of shares, after deducting all related expenses, were approximately HK$68,850,000 and HK$66,949,000 respectively. The Company has utilised the net proceeds (i) for repayment of the loans of the Company; (ii) for acquisition of office premises; (iii) for general working capital of the Group; and (iv) for financing of the Mine Acquisition.

On 26 October 2007, the Company through a placing agent, Morgan Stanley & Co. International plc placed 112,695,840 ordinary shares of HK$0.0005 each at the placing price of HK$0.29 each. The gross proceeds and net proceeds from the placing of shares, after deducting all related expenses, were approximately HK$32,682,000 and HK$30,798,000 respectively. The Company has utilised the entire net proceeds for the financing of the Mine Acquisition.

(d) Exercise of share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 24.

(e) Exercise of warrants

During the year, part of the warrants issued were exercised for 900,000 shares of HK$0.01 each with an exercise price of HK$2.25 per warrant, 30,000,000 shares of HK$0.0005 each with an exercise price of HK$0.1125 per warrant and 51,136,363 shares of HK$0.0005 each with an exercise price of HK$0.11 per warrant.

Subsequent to the balance sheet date, part of the warrants issued were exercised for 40,909,090 shares of HK$0.0005 each with an exercise price of HK$0.11 per warrant.

24. SHARE – BASED EMPLOYEE COMPENSATION

During the year ended 31 December 2007, the Group terminated the existing share option scheme adopted on 19 February 2001 and adopted a new share option scheme for employee compensation as details below.

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

(a) The Old Scheme

On 19 February 2001, a share option scheme ("**Old Scheme**") was adopted by the Company.

The principal purpose of the share option scheme was to recognise the significant contributions of the directors and employees of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate them and give incentives to these persons to continue to contribute to the Group's long term success and prosperity.

The eligible participants of the share option scheme were the directors and full time employees of the Company and its subsidiaries. The share option scheme became effective on 2 March 2001 and, unless otherwise cancelled or amended, would remain in force for 10 years from its date of adoption on 19 February 2001.

Under the share option scheme, the maximum number of unexercised share options permitted to be granted was an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the share option scheme in aggregate cannot exceed 25% of the total number of shares of the Company in issue at any time for which share options might be granted under the share option scheme. However, following the introduction of the revised Chapter 23 of the GEM Listing Rules, the initial total number of shares which might be issued upon exercise of an option to be granted under the share option scheme and any other schemes must not in aggregate exceed 10% of the shares of the Company immediately following the listing of the shares of the Company on the GEM. Subject to the approval of the Company's shareholders, the aggregate number of the Company's shares which might be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme and any other share option schemes of the Company should not exceed 30% of the Company's shares in issue from time to time.

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

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

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

On 11 April 2007, 99,000,000 share options had been granted to each of ten other grantees (all are the employees of the Group) under the Old Scheme at an exercise price of HK$0.0475 per Share with an exercise period from 11 April 2007 to 18 February 2011. For the year ended 31 December 2007, 89,100,000 share options were exercised. As at 31 December 2007, the Company had options outstanding under the Old Scheme entitling the holders thereof to subscribe for 9,900,000 shares.

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

Subsequent to the balance sheet date, 9,900,000 shares were allotted and issued upon the exercise of all the outstanding share options as at 31 December 2007; and as at the date of approving of these financial statements, there is no outstanding share options under the old scheme.

Detailed movements in the Old Scheme for the years ended 31 December 2006 and 2007:

Name or category of participant	Share option type	At 1 January 2006 and 2007**	Number of options granted**	Number of options exercised**	At 31 December 2007**	Date of grant of options	Exercise period of share options*	Exercise price of share option** *HK$*	Closing price of share immediately before the date of grant of options** *HK$*
Directors									
Mr. Choi Koon Ming	2001	15,000,000	–	(15,000,000)	–	21 January 2003	21 January 2003 to 20 January 2008	0.0574	0.057
Mr. Ng Kam Yiu	2001	6,000,000	–	(6,000,000)	–	21 January 2003	8 January 2004 to 7 January 2009	0.0574	0.057
Mr. Chow Yeung Tuen, Richard	2001	6,000,000	–	(6,000,000)	–	21 January 2003	21 January 2003 to 20 January 2008	0.0574	0.057
Sub-total		27,000,000	–	(27,000,000)	–				
Employees									
In aggregate	2001	–	99,000,000	(89,100,000)	9,900,000	11 April 2007	11 April 2007 to 18 February 2011	0.0475	0.023
Total		27,000,000	99,000,000	(116,100,000)	9,900,000				
Weighted average exercise price ***		0.0574	0.0475	0.0498	0.0475				

* *The vesting period of the share options is from the date of the grant until the commencement of the exercise period.*

** *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. Following the Share Subdivision with effect from 23 August 2007, the total number of share options outstanding and the exercise price of the share options outstanding and the closing price of shares immediately before the date of grant of options had been adjusted accordingly.*

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

(b) The New Scheme

On 29 June 2007, the Company adopted a new share option scheme ("**New Scheme**").

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

- any employee (whether full time or part time, including any director) of the Company, any of its subsidiaries or any entity ("**Invested Entity**") in which any member of the Group holds an equity interest (the persons are collectively referred to as "**Eligible Employees**");
- any directors (including non-executive directors and independent non-executive directors) of the Company, any subsidiary or any Invested Entity;
- any supplier of goods or services to any member of the Group or any Invested Entity;
- any customer of any member of the Group or any Invested Entity;
- any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;
- any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- any adviser (professional or otherwise), consultant, individual or entity who in the opinion of the directors of the Company has contributed or will contribute to the growth and development of the Group;
- any other group or classes of particpants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group, and
- for the purposes of the New Scheme, the offer may be made to any company wholly owned by one or more Eligible Participants.

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

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

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

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

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

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

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

On 9 July 2007 and 22 August 2007, the Company granted 96,000,000 share options at the exercise price of HK$0.1425 per share and 82,000,000 share options at the exercise price of HK$0.2030 per share respectively, totalling 178,000,000 share options, under the New Scheme. None of such options was granted to the Directors or senior management of the Company. As at 31 December 2007, no option granted under New Scheme had been exercised.

As at 31 December 2007, the Company had options outstanding under the New Scheme entitling the holders thereof to subscribe for 178,000,000 shares.

The fair value of share options granted is recognised in the profit and loss account taking into account the probability that the options will vest over the vesting period. Upon the exercise of the options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapsed, if any, prior to their exercise dated are deleted from the outstanding options.

Detailed movements in the New Scheme for the year ended 31 December 2007:

Name or category of participant	Share option type	At 1 January 2007**	Number of options granted**	Number of options exercised**	At 31 December 2007**	Date of grant of options	Exercise period of share options*	Exercise price of share option**	Closing price of shares immediately before the date of grant of options**
								HK$	*HK$*
Other eligible employees									
In aggregate	2007(a)	–	96,000,000	–	96,000,000	9 July 2007	9 July 2007 to 29 June 2017	0.1425	0.124
	2007(b)	–	82,000,000	–	82,000,000	22 August 2007	22 August 2007 to 29 June 2017	0.2030	0.182
Total		**–**	**178,000,000**	**–**	**178,000,000**				
Weighted average exercise price ***		–	0.1704	–	0.1704				

* *The vesting period of the share options is from the date of the grant until the commencement of the exercise period.*

** *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. Following the Share Subdivision with effect from 23 August 2007, the total number of share options outstanding and the exercise price of the share options outstanding and the closing price of shares immediately before the date of grant of options had been adjusted accordingly.*

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

(c) Summary of details of the Old Scheme and New Scheme

	2007		2006	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 January	27,000,000	0.0574	27,000,000	0.0574
Granted	277,000,000	0.1265	–	–
Exercise	(116,100,000)	0.0498	–	–
Outstanding at 31 December	187,900,000	0.1639	27,000,000	0.0574

No share options were granted in 2006. The following significant assumptions were used to derive the fair values of share options granted in 2007, using the Black-Scholes Option Pricing Model:

Share option type	**2001**	**2007 (a)**	**2007 (b)**
Date of grant	**11 April 2007**	**9 July 2007**	**22 August 2007**
Expected volatility	144.72%	113.43%	111.57%
Expected exercise date	11 October 2007 to 11 October 2008	8 January 2008	21 February 2008
Risk-free interest rate	3.55% to 3.793%	3.89%	3.94%
Expected dividend yield	Nil	Nil	Nil

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

The weighted average share price of these shares at the date of exercise was HK$0.2751. All remaining share options as at 31 December 2007 have been accounted for under HKFRS 2. The option outstanding at 31 December 2007 had weighted average exercise prices of HK$0.1639 (2006: HK$0.0574) and a weighted average remaining contractual life of 9.2 years (2006: 1.2 years).

In total, approximately HK$11,433,000 of employee benefit expense has been included in the consolidated income statement for 2007 (2006: Nil), the corresponding amount of which has been credited to employee compensation reserve (note 25). No liabilities were recognised on the equity-settled share-based payment transactions.

25. RESERVES

GROUP

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 37 of the financial statements.

COMPANY

	Share premium account HK$'000	Convertible bond equity reserve HK$'000	Employee compensation reserve HK$'000	Warrant reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2006	–	3,219	–	–	(59,305)	(56,086)
Loss for the year	–	–	–	–	(4,031)	(4,031)
Capital reduction arising from Par Value Reduction *(Note 23)*	–	–	–	–	36,932	36,932
Redemption of convertible bonds	–	(3,219)	–	–	3,219	–
At 31 December 2006	–	–	–	–	(23,185)	(23,185)

	Share premium account HK$'000	Convertible bond equity reserve HK$'000	Employee compensation reserve HK$'000	Warrant reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2007	–	–	–	–	(23,185)	(23,185)
Loss for the year	–	–	–	–	(103,488)	(103,488)
Issuance of new shares	107,860	–	–	–	–	107,860
Share issue expense	(3,895)	–	–	–	–	(3,895)
Recognition of equity-settled share-based compensation	–	–	11,433	–	–	11,433
Proceeds from shares issued under share option scheme	7,385	–	(1,661)	–	–	5,724
Issuance of warrants	–	–	–	358	–	358
Exercise of warrants	11,075	–	–	(99)	–	10,976
At 31 December 2007	122,425	–	9,772	259	(126,673)	5,783

Note:

(a) The share premium account of the Group and Company arises on shares issued at a premium. In accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

Pursuant to a special resolution passed at an extraordinary general meeting held on 16 November 2005, the share premium account of approximately HK$15,796,000 was applied towards the reduction of the accumulated losses in the reserves.

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

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

26. OPERATING LEASE COMMITMENTS

GROUP

At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases are payable by the Group as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Within one year	10	10

The Group leases a rented premise under an operating lease. The lease runs for an initial period of one year, with an option to renew the lease terms at the expiry date or at dates mutually agreed between the Group and the landlord. The lease does not include contingent rental.

COMPANY

The Company had no significant operating lease commitments as at 31 December 2007 and 2006.

27. CAPITAL COMMITMENTS

The Group and the Company had no significant capital commitments as at 31 December 2007 and 2006.

28. CONTINGENT LIABILITIES

The Group and the Company had no significant contingent liabilities as at 31 December 2007 and 2006.

29. RELATED PARTY TRANSACTIONS

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

	Notes	**2007** *HK$'000*	**2006** *HK$'000*
Interest expenses paid to Sun Wah:	*(i)*		
– Shareholder's loans		1,581	745
– Convertible bonds		–	1,290
Company secretarial fee paid to Sun Wah	*(ii)*	460	–

Notes:

(i) Sun Wah was one of the former substantial shareholders of the Company until 29 March 2007. Details of the loans advanced by Sun Wah are set out in note 21. The convertible bonds issued to Sun Wah have been redeemed in whole on 27 October 2006.

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

(iii) The Group leased its office premises from Sun Wah starting from December 2006 to 31 December 2007. Sun Wah did not demand the Group for any rental expense.

(b) Compensation of key management personnel

GROUP

	2007 *HK$'000*	**2006** *HK$'000*
Total remuneration of directors and other members of key management during the year	1,426	563

30. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

During the year ended 31 December 2006, the issued capital of Leland was increased from HK$50,000 to HK$100,000. Both the Group and Sun Rise paid their contribution by way of the transfer from their respective shareholders' loans to Leland.

31. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks such as market risk (including foreign currency risk, interest rate risk, credit risk), liquidity risk and price risk, which result from both its operating and investing activities. The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate strategies to manage the Group's exposure to these financial risks. The Group's exposure to market risk is kept to a minimum. The Group has not used any derivatives or other instruments for hedging purpose.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

31.1 Foreign currency risk

The Group's exposure to currency exchange rates is minimal as the group companies usually hold most of their financial assets/liabilities in their own functional currencies.

31.2 Interest rate risk

The Group has no exposure to interest rate risk as all of its financial liabilities are stated at amortised cost and are either charged at a fixed interest rate or interest free.

31.3 Credit risk

Details of the Group's credit risk are included in note 19.

31.4 Fair values

The fair values of cash and bank balances, trade receivables, other receivables, other payables and accrued expenses, loans from a shareholder and bank overdrafts are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

31.5 Liquidity risk

The Group manages its liquidity needs by carefully monitoring expected payments for potential investments as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long term liquidity needs for a 360-day lookout period are identified monthly.

The Group maintains mainly cash to meet its liquidity requirements for up to 30-day periods, funding for long-term liquidity needs will be considered when there is any potential investment identified.

	2007			**2006**		
	Current		**Non-current**	**Current**		**Non-current**
	On demand	**Within 1 year**	**More than 1 year**	**On demand**	**Within 1 year**	**More than 1 year**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank overdrafts	380	–	–	–	–	–
Other payables and accrued expenses	265	338	–	248	491	–
Loans from a shareholder	3,456	–	–	13,800	10,800	–
Due to minority shareholders of subsidiaries	–	–	502	–	–	474

The above contractual maturities reflect the gross cash flows, which may differ to the carrying values of the liabilities at the balance sheet date.

31.6 Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at 31 December 2007 and 2006 may be categorised as follows. See notes 3.9 and 3.16 for explanations about how the category of financial instruments affects their subsequent measurement.

(i) Financial assets

	2007	**2006**
	HK$'000	*HK$'000*
Current assets		
Cash and bank balances	74,043	675
Loans and receivables:		
Trade receivables	132	14
Other receivables	1	115
	133	129
	74,176	804

(ii) Financial liabilities

	2007	**2006**
	HK$'000	*HK$'000*
Current liabilities		
Financial liabilities at amortised cost:		
Bank overdrafts	380	–
Other payables and accrued expenses	603	739
Loans from a shareholder	3,275	23,982
	4,258	24,721
Non-current liabilities		
Financial liabilities at amortised cost:		
Due to minority shareholders of subsidiaries	502	474

32. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's capital management objectives are:

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

– to provide an adequate return to shareholders; and

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

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

Consistent with other industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) and total capital is calculated as "equity", as shown in the consolidated balance sheet.

The gearing ratios as at 31 December 2007 and 2006 were as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Total borrowings	4,157	24,456
Total equity	89,423	(24,288)
Gearing ratio	0.046	-1.01

The decrease in the gearing ratio during 2007 results primarily from the issue of new shares as detailed in note 23.

33. POST BALANCE SHEET EVENTS

(a) With effect from the passing of the special resolution relating to the change of Company's name on 15 February 2008, the name of the Company has been changed to "China Metal Resources Holdings Limited 中國金屬資源控股有限公司". The Company will carry out all necessary filing procedures with the Registrar of Companies in the Cayman Islands and the Registrar of Companies in Hong Kong. A certificate of incorporation on change of name will be issued by the Registrar of the Companies in the Cayman Islands. Further announcement(s) will be made when the change of Company name becomes effective.

(b) On 4 January 2008, Greatest High Holdings Limited (the "**Purchaser**"), a wholly-owned subsidiary of the Company, and Mr Leung Ngai Man ("**Mr Leung**"), an executive director of the Company, entered into an agreement (the "**Agreement**") pursuant to which the Purchaser has agreed to acquire and Mr Leung has agreed to dispose of the entire issued share capital (the "**Sale Share**") of China Nonferrous Metals Resources Investment Limited (the "**Target**") and the Sale Loan (as defined in the announcement of the Company dated 23 January 2008), at a total consideration of HK$1,800 million (the "**Consideration**").

The Target is a company incorporated in the British Virgin Islands and wholly and beneficially owned by Mr. Leung. The Target is principally engaged in investment holding. The sole asset of the Target is the entire issued capital of China Mining Group Investment Limited, a company incorporated in Hong Kong, which in turn owns 80% of the registered and paid up capital of 雲南西部礦業有限公司 (the

"**CJV**"), a Chinese foreign co-operative joint venture company established under the PRC laws on 14 May 2004. The CJV is principally engaged in the exploration of mines in the PRC at permitted and authorised locations. It has commenced its business and carries out exploration work at a gold mining site located at Luoxi City, Yunnan Province, the PRC.

Pursuant to the terms of the sales and purchase agreement, the consideration of HK$1,800 million shall be settled in the following manner: (i) on the date of the Agreement, an aggregate amount of HK$65 million was paid by the Group to Mr Leung as the deposit and part of the Consideration; (ii) a sum equivalent to 90% of the net proceeds from the Fund Raising Exercise (as defined in the announcement of the Company dated 23 January 2008) shall be payable by the Purchaser to Mr Leung on completion of the Agreement (the remaining 10% of such net proceeds will be retained as general working capital); (iii) in the event that the net proceeds obtained from item (ii) above are not sufficient to satisfy the remaining balance of the Consideration (being HK$1,735 million), the Purchaser shall procure the Company to allot and issue new shares of the Company (the "Consideration Shares"), credited as fully paid at the issue price of HK$0.40, on completion to Mr Leung. Such Consideration Shares, together with the shares beneficially owned by Mr Leung at Completion shall not exceed 29% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares; and (iv) the balance of the Consideration, after the deduction of items (i), (ii) and (iii) above, shall be satisfied by the Purchaser procuring the Company to issue convertible bonds to Mr Leung on Completion.

Details of this transaction are included in the Company's announcement dated 23 January 2008.

(c) On 27 November 2007, the Company announced that Sun Rise and E-silkroad.net Corporation ("E-silkroad.net"), a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Group, has entered into the sale and purchase agreement (the "**SP Agreement**") on 26 November 2007 pursuant to which Sun Rise had agreed to sell, and E-silkroad.net had agreed to purchase, 49% equity interests in Leland at a consideration of HK$49,000 (the "**Acquisition**"). Details of the Acquisition were included in the Company's circular dated 29 January 2008.

The Acquisition was approved at the extraordinary meeting of the Company held on 15 February 2008 and completed on 19 February 2008. Thereafter, Leland became a wholly-owned subsidiary of the Company.

3. MANAGEMENT DISCUSSION AND ANALYSIS

For the Group

For the year ended 31 December 2005

Overview

During the year ended 31 December 2005, the global economy has recovered and expanded in a positive way. In addition, strong local economic rebound and rapid economic development in Mainland China is expected to help us improve corporate turnover in the future.

The Group strives to be more competitive by tightening cost control in each level and continues to explore new investment opportunities in other areas to serve the best interest of the shareholders of the Company.

Operational Review

During the year ended 31 December 2005, the turnover of the Group increased by approximately 374% as compared with that of 2004. The main contribution of the turnover of the Group in the year 2005 is from a newly established subsidiary, Leland Solutions Limited ("**Leland**"), which contributed approximately 85% of the revenue of the Group. Despite this, intense competition and high cost of sales made a low gross profit margin of approximately 10% in the year. However, the performance was improved by changing the gross loss made in year 2004 to gross profit made in 2005.

The audited net loss for the year ended 31 December 2005 attributable to equity holders of the Company amounted to approximately HK$4.5 million (2004: approximately HK$5.3 million) which was reduced as compared with that of 2004 since the gross profit ratio was improved and the finance costs was greatly reduced by approximately HK$448,000, approximately 19% decrease.

In the future, the management team will focus on information technology development outsourcing services, systems integration services and professional information technology services. The operational management is instructed to negotiate with potential clients and conclude new contracts to uplift the profit margin and to improve corporate profitability in the coming year. In addition, the management will consider increasing marketing campaigns according to the existing available resources and the actual market conditions.

Financial Review

Liquidity and financial resources

The Group financed its operations primarily with internally generated cash flow together with the net proceeds from the issue of the convertible bonds in October 2003 and the shareholder's loan from Sun Wah Net Investment Limited ("**Sun Wah**"). The Group still adopted a conservative financial management and treasury policy. All borrowings and the majority of bank balances are denominated in Hong Kong dollars and put in short term fixed deposits.

As at 31 December 2005, the Group had cash and cash equivalents of approximately HK$1.9 million (2004: HK$0.9 million). During the year of 2005, the Group obtained a new shareholder's loan from Sun Wah in the principal amount of HK$12 million which bears interest at a rate of 4% per annum for a six-month term and such loan is repayable on 24 April 2006. This shareholder's loan was used to repay the shareholder's loan in the principal amount of HK$9 million with an accrued interest at a rate of 3% per annum for a six-month term granted by the same party on 25 March 2005. The old shareholder's loan in the principal amount of HK$9 million was used to repay the convertible bonds in the principal amount of HK$7 million (stated in the balance sheet as at 31 December 2004 at the fair value of HK$6.97 million issued on 28 March 2002 together with the relating unsecured interest-free advances of HK$0.8 million to be repaid on the maturity date of its convertible bonds. Accordingly, the Group utilised total funds of approximately HK$3.3 million to finance its operation for the year ended 31 December 2005.

As at 31 December 2005, the Group had total outstanding borrowings of approximately HK$20.57 million (2004: HK$15.17 million) stated in the consolidated balance sheet. The borrowings comprised an unsecured convertible bond in the principal amount of HK$9 million (as stated in the balance sheet as at 31 December 2005 at the fair value of HK$7.98 million), which will mature on 27 October 2006 and a shareholder's loan of HK$12 million granted by Sun Wah and drawn on 25 October 2005. This shareholder's loan is unsecured and bears interest at a rate of 4% per annum and is due for repayment on 24 April 2006. In addition, during the year of 2005, the amount due to minority shareholder of subsidiaries was HK$0.5 million (2004: HK$0.4 million), which was unsecured, interest-free and not repayable within 12 months from 31 December 2005.

Capital structure

As at 31 December 2005, the Company's total number of issued shares was 75,372,000 (2004: 753,720,000) after the share consolidation on the basis of every 10 issued and unissued shares of HK$0.05 each in the capital of the Company consolidating into one ordinary share of HK$0.50 each in the capital of the Company pursuant to an ordinary resolution passed in the extraordinary general meeting of the Company held on 16 November 2005 ("Share Consolidation"). On 16 November 2005, a special resolution in relation to, among other matters, the cancellation of the share premium account of the Company of an amount of HK$15,796,000 to be applied towards the elimination of the accumulated loss of the Company was passed.

Subsequently, with the sanction of the Grand Court of the Cayman Islands dated on 10 February 2006 (Cayman Islands time) and the completion of certain procedural requirements, the nominal value of each share of the Company was reduced from HK$0.50 to HK$0.01 and, an amount of HK$36,932,280 from the share capital account was applied towards the elimination of part of the accumulated losses of the Company.

As at 31 December 2005, the Group had convertible bonds in the principal amount of HK$9 million (as stated in the balance sheet at the fair value of HK$7.98 million) outstanding (2004: HK$16 million as stated in the balance sheet at the fair value of HK$13.86 million). Such convertible bonds are unsecured and bear interest at a rate of 3% per annum and will become mature on 27 October 2006.

Investment, material acquisitions and disposal of subsidiaries and affiliated companies

The Group formed a new subsidiary, Leland, with Sun Rise Int'l Trading Limited, a business partner who has extensive experience in information technology solution services, on 23 August 2005 pursuant to an agreement made between the parties on 1 August 2005. An announcement in relation to the formation of Leland was published on the GEM website on 2 August 2005.

Save as disclosed above, the Group held no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2005 (2004: Nil).

Segment comments

The turnover from Internet-based and Windows-based applications, web page design and website maintenance segment dropped from HK$133,000 in 2004 to HK$48,000 in 2005, representing a decrease of 64%. However Leland brought some new businesses such as system integration and information technology consulting services to the Group during the year ended 31 December 2005. Such new business segments contributed a turnover of HK$582,000 (2004: Nil) for the year ended 31 December 2005.

The other two new business segments namely system integration and information technology consultancy services contributed profit margin of 1% and 46% respectively.

Employee information

As at 31 December 2005, the Group employed a total of 7 (2004: 6) employees. The staff costs, including directors' remuneration, were approximately HK$1,093,000 (2004: HK$1,463,000).

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

Charges on group assets

As at 31 December 2005, none of the Group's assets was pledged (2004: Nil).

Future plans for material investments or capital assets

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2005, but the Group will continue to look for new business opportunities.

Gearing ratio

As at 31 December 2005, the Group's gearing ratio was approximately -1.08 (2004: -1.03), based on the total borrowings of approximately HK$20.57 million (2004: HK$15.17 million) and deficiencies in assets of approximately HK$19.13 million (2004: approximately HK$14.60 million).

Exposure to fluctuation in exchange rates

The Group's exposure to foreign currencies is limited to its investment in a foreign subsidiary, which is financed internally. Most of the Group's transactions, including borrowings, were conducted in Hong Kong dollars and Renminbi. The exchange rate of Renminbi to Hong Kong dollars has been relatively stable throughout the year although China introduced Renminbi in a managed floating exchange rate system based on market supply and demand and investment to a package of currencies on 21 July 2005. Moreover, it is also the Group's policy for each operating entity to borrow in local currencies, where possible, to minimise currency risk.

Contingent liabilities

As at 31 December 2005, the Group had no significant contingent liabilities (2004: Nil).

For the year ended 31 December 2006

Overview

During the year ended 31 December 2006, the economy of Hong Kong had improved steadily with an increase in its Gross Domestic Products. The unemployment rate in Hong Kong had reduced as compared with previous years. In addition, the booming capital market and prosperous initial public offering activities in Hong Kong brought along business opportunities and economic growth.

Operational Review

During the year ended 31 December 2006, the revenue of the Group was approximately HK$964,000 which increased by approximately 53% as compared with that of the previous year (2005: HK$630,000). Such increase was due to a significant rise in the revenue of the business segment of information technology consultancy services. However, the gross profit margin of the Group slightly dropped from approximately 10% for the year ended 31 December 2005 to approximately 8% for the year ended 31 December 2006 due to the rising cost of sales caused by keen competition during the year.

The selling and distribution expenses for the year ended 31 December 2006 increased by approximately HK$200,000 during the year as additional salary payment was incurred for recruitment of a new sales manager for business development purpose in January 2006. In addition, administrative expenses for the year ended 31 December 2006 increased by approximately HK$327,000 to approximately HK$3,069,000 (2005: HK$2,742,000), representing an increase of approximately 12%, as compared with that of the previous year mainly due to increase in salary payment for business operations upon economic recovery.

Finance costs for the year ended 31 December 2006 increased by approximately HK$123,000 to approximately HK$2,035,000 (2005: HK$1,912,000), representing an increase of approximately 6%, as compared with that of the previous year. Interest charges on convertible bonds for the year ended 31 December 2006 reduced by approximately HK$377,000 as compared with that of the previous year because the convertible bonds at a nominal value of HK$9 million issued to Sun Wah Net Investment Limited ("Sun Wah") on 27 October 2003 was redeemed in full by the Company on 27 October 2006 and no further interest expenses would be incurred in respect of such convertible bonds thereafter. Interest charges on loans from a shareholder for the year ended 31 December 2006 largely increased by approximately HK$500,000, representing an increase of approximately 200%, as compared with that of the previous year as a new shareholder's loan in the amount of HK$10 million was granted in October 2006 with a higher interest rate of 8% per annum to repay the aforesaid convertible bonds.

Hence, the audited loss of approximately HK$5,149,000 (2005: HK$4,526,000) for the year ended 31 December 2006 attributable to equity holders of the Company increased by approximately HK$623,000, representing an increase of approximately 14%.

Financial Review

Liquidity and financial resources

The Group financed its operations primarily with internally generated cash flow together with the shareholder's loans from Sun Wah. The Group still adopted a conservative financial management and treasury policy. All borrowings and the majority of bank balances are denominated in Hong Kong dollars and put in short term deposits.

As at 31 December 2006, the Group had cash and cash equivalents of approximately HK$0.7 million (2005: HK$1.9 million). During the year ended 31 December 2006, the Group had obtained three shareholder's loans from Sun Wah in the principal amount of HK$12.2 million, HK$1.2 million and HK$10 million respectively.

During the year ended 31 December 2006, a shareholder's loan in the principal amount of HK$12.2 million, which bears interest at a rate of 5% per annum for a term of a three-month period, granted by Sun Wah on 2 May 2006, was used to repay a previous shareholder's loan granted by Sun Wah, in the principal amount of HK$11.4 million with accrued interest of HK$0.2 million. A shareholder's loan in the principal amount of HK$10 million, which bears interest at a rate of 8% per annum for one year, granted by Sun Wah on 27 October 2006, was principally used to redeem the convertible bonds at nominal value of HK$9 million which was issued on 27 October 2003 to Sun Wah and matured on 27 October 2006 with accrued interest of approximately HK$0.2 million.

A shareholder's loan in the principal amount of HK$1.2 million, which bears interest at a rate of 5% per annum for two months, was lent to Leland by Sun Wah on 12 June 2006, and was used to repay a previous loan of HK$0.6 million, owed by the Group to Sun Wah, with accrued interest approximately of HK$0.01 million.

As at 31 December 2006, the Group had total outstanding borrowings of approximately HK$24.46 million (2005: HK$20.57 million) as stated in the consolidated balance sheet. The borrowings comprised mainly the aforesaid shareholder's loans in the total principal amount of HK$23.40 million (stated at amortised costs of approximately HK$23.98 million in the consolidated balance sheet) of which shareholder's loans of HK$12.2 million and HK$1.2 million were subsequently repaid on 16 March 2007 and the amount due to minority shareholders of subsidiaries of approximately HK$0.5 million (2005: HK$0.5 million), which were unsecured, interest-free and not repayable within 12 months from 31 December 2006.

Capital structure

As at 31 December 2006, the Company's total number of issued shares was 75,372,000 shares (2005: 75,372,000 shares). On 15 February 2006, the Company reduced its nominal value of each share from HK$0.50 to HK$0.01 ("**Par Value Reduction**") by cancellation of HK$0.49 paid up capital on each share. As a result of the Par Value Reduction, on the basis of 75,372,000 issued shares, an amount of approximately HK$36,932,000 from the share capital account was applied towards the elimination of part of the accumulated losses of the reserves. Upon the Par Value Reduction becoming effective on 15 February 2006, all the then authorised but unissued share capital of the Company was cancelled and the authorised share capital of the Company was immediately restored to the original amount of HK$100,000,000 by the creation of the 9,800,000,000 new shares of HK$0.01 each.

Investment, material acquisitions and disposal of subsidiaries and affiliated companies

The Group had no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2006. (2005: Formation of Leland as announced by the Company on 2 August 2005).

Segment comments

During the year ended 31 December 2006, the revenue from ordinary activities had been derived from three business segments: i) web page design and website maintenance segment, its revenue dropped from approximately HK$48,000 in 2005 to approximately HK$7,000 in 2006; ii) system integration segment, its revenue dropped from approximately HK$452,000 in 2005 to approximately HK$128,000 in 2006; iii) information technology consultancy services segment, its revenue increased from approximately HK$130,000 in 2005 to approximately HK$829,000 in 2006.

The segments of system integration and information technology consultancy services contributed positive profit margins of approximately 3% and 11% respectively. Since the segment of web page design and website maintenance resulted in a loss, scaling-down of this segment is under consideration. The Group will continue to develop its information technology consultancy services and also to seek to invest in other new profitable business segments.

Employee information

As at 31 December 2006, the Group employed a total number of 9 (2005: 7) employees. The staff costs, including Directors' remuneration, were approximately HK$1,706,000 (2005: HK$1,093,000).

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

Charge on group assets

As at 31 December 2006, none of the Group's assets was pledged (2005: Nil).

Future plans for material investments or capital assets

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2006. However, the Group will continue to seek new business development opportunities.

Gearing ratio

As at 31 December 2006, the gearing ratio of the Group was approximately -1.01 (2005: -1.08), based on the total borrowings of approximately HK$24.46 million (2005: HK$20.57 million) and deficiencies in assets of approximately HK$24.29 million (2005: approximately HK$19.13 million).

Exposure to fluctuation in exchange rates

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

Contingent liabilities

As at 31 December 2006, the Group had no significant contingent liabilities. (2005: Nil).

For the year ended 31 December 2007

Operational review

During the year, the revenue of the Group was approximately HK$2,609,000 which increased by approximately HK$1,645,000 as compared with that of the previous year (2006: HK$964,000). The revenue was mainly derived from the provision of information technology consultancy services, staff secondment and system integration and trading of hardware and software. Such increase was due to a significant rise in the revenue of the business segment of trading of hardware and software.

The operating loss increased by approximately HK$14,434,000 to approximately HK$17,573,000 (2006: approximately HK$3,139,000). It is due to a substantial increase in administrative expenses (share-based payment expense) which was caused by the grant of share options to the eligible grantees of the Company in April, July and August 2007.

On 1 August 2007 and 12 September 2007, the Company made two partial repayments to fully repay the principal and accrued interest of the loan of HK$10,000,000 granted by Sun Wah on 27 October 2006. On 16 October 2007, the Company also repaid the principal and accrued interest of the other loan of HK$18,500,000 in full granted by Sun Wah on 13 March 2007. The full repayment of such two loans would largely reduce the Company's interest burden and regular expenditure to a certain extent. Finance costs were then decreased by approximately HK$454,000 to approximately HK$1,581,000, representing a decrease of approximately 22%.

Hence, the audited loss of approximately HK$19,154,000 (2006: HK$5,149,000) for the year attributable to equity holders of the Company increased by approximately HK$14,005,000.

Financial review

Liquidity and financial resources

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

As at 31 December 2007, the Group had cash and bank balances of approximately HK$74,043,000 (2006: HK$675,000). During the year, the Group has carried out various fund raising activities which include top-up placing of shares and the issue of unlisted warrants. Out of the proceeds of two top-up placings of shares of the Company which took place in September and October 2007 respectively, not less than HK$50,500,000 has been utilised to finance the Mine Acquisition.

As at 31 December 2007, the Group had total outstanding borrowings of approximately HK$4,157,000 (2006: HK$24,456,000) as stated in the consolidated balance sheet. The borrowings comprised mainly the bank overdraft of HK$380,000 (2006: Nil), the shareholder's loans in the total principal amount of approximately HK$3,275,000 (2006: HK$23,982,000) and the amount due to minority shareholders of subsidiaries of approximately HK$502,000 (2006: HK$474,000), which were unsecured, interest-free and not repayable within 12 months from 31 December 2007.

With regard to the acquisition of 49% interests in Leland on 15 February 2008, Leland Solutions Limited is now a wholly-owned subsidiary of the Company. On 18 February 2008, the Company repaid the principal and interests of the outstanding borrowings of approximately HK$3,309,000 to Sun Wah.

Capital structure

As at 31 December 2007, the Company's total number of issued shares was 2,361,711,403 ordinary shares of HK$0.0005 each (2006: 75,372,000 ordinary shares of HK$0.01 each). On 3 July 2007, the Company entered into two separate agreements with two investors for the issue of unlisted warrants to them. Such warrants confer the holders thereof the rights to subscribe up to HK$40,275,000 in aggregate for shares at an initial subscription price of HK$2.25 per share. The issue of those unlisted warrants was completed on 20 July 2007. *(Details of the issue of unlisted warrants are set out in the announcement of the Company dated 4 July 2007)*.

On 9 August 2007, one of the warrantholders exercised the subscription rights attached to the warrants to subscribe for 900,000 shares at an aggregate subscription price of HK$2,025,000. On 19 September and 28 November 2007, the aforesaid warrantholder exercised the subscription rights attached to the warrants to subscribe for 30,000,000 shares and 30,681,818 shares (after the Share Subdivision in August 2007 and adjusted subscription price in November 2007) at an aggregate subscription price of HK$3,375,000 respectively. On 11 December 2007, another warrantholder exercised the subscription rights attached to the warrants to subscribe for 20,454,545 shares at an aggregate subscription price of HK$2,250,000.

The company has also issued various new shares during the year pursuant to certain fund-raising exercises, brief particulars of which are set out in note 23(c) to the financial statements.

Investment, material acquisition and disposal of subsidiaries and affiliated companies

On 11 October 2007 and 29 October 2007, Richtop Holdings Limited, a wholly-owned subsidiary of the Company, entered into each of the preliminary sale and purchase agreement and the formal agreement respectively, in relation to an acquisition of a property located in Hong Kong at a purchase price of HK$17,200,000 ("**Office Acquisition**"). Completion of the Office Acquisition took place on 30 November 2007. The Board considers that the Office Acquisition provides an opportunity for the Group to expand its assets base and to cope with its further expansion. *(Details of the Office Acquisition are set out in the announcement of the Company dated 12 October 2007 and the circular of the Company dated 2 November 2007).*

On 26 November 2007, E-silkroad.net Corporation, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Sun Rise Int'l Trading Limited ("**Sun Rise**") in relation to an acquisition of 49% equity interests in Leland from Sun Rise at a cash consideration of HK$49,000. *(Details of this acquisition are set out in the announcement of the Company dated 27 November 2007 and the circular of the Company dated 29 January 2008).* An ordinary resolution regarding this acquisition was passed on 15 February 2008 at an extraordinary general meeting by the shareholders of the Company and completion of such acquisition took place on 19 February 2008. Leland is a company incorporated in Hong Kong which is principally engaged in the provision of web page design, website maintenance, system integration and information technology consultancy services. Its main operations are in Hong Kong and its does not maintain any other principal establishment. There has not been any variation in the aggregate of the remuneration payable to and benefits in kind receivable by the directors of Leland in consequence of such acquisition.

In accordance with paragraph 31(3)(b) of Appendix 1B to the GEM Listing Rules, a pro forma statement combining profits and losses for the latest financial year for a company acquired since the date of the last published audited accounts of the group in respect of which an accountants' report has already been submitted to shareholders shall be included in the circular regarding a very substantial acquisition of an issuer.

On 29 January 2008, the Company issued a circular ("Leland Circular") regarding a major and connected transaction ("Transaction") in respect of the acquisition of a non wholly-owned subsidiary by the Company, Leland Solutions Limited ("Leland"). The Transaction was approved by the Shareholders on 15 February 2008 and completed on 19 February 2008. Accordingly, pursuant to paragraph 31(3)(b) of Appendix 1B to the GEM Listing Rules, a pro forma statement combining profits and losses for Leland for the latest financial year shall be included in this circular.

The Company does not consider the inclusion of the pro forma statement of profits and losses in this circular meaningful as Leland has been a subsidiary of the Group since its establishment and its profits and losses have been accounted for in the financial statements of the Group since Leland's date of incorporation. In this respect, the Company has applied for and the Exchange has granted a waiver from strict compliance with paragraph 31(3)(b) of Appendix 1B to the GEM Listing Rules.

On 4 January 2008, Greatest High Holdings Limited, a wholly-owned subsidiary of the Company and Mr. Leung entered into an agreement in relation to the acquisition of the Target. The sole asset of the Target is the entire issued capital of China Mining Group Investment Limited, which in turn owns 80% of the registered and paid up capital of the CJV. The CJV is the holder of the exploration permit on the exploration area located at Luoxi City, Dehong Dai and Jingpo Autonomous Prefecture, Yunan Province, the PRC (雲南省德宏傣族景頗自治州潞西市). *(Details of the Acquisition are set out in the announcement of the Company dated 23 January 2008 and this circular).*

Segment comments

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

i) Staff secondment and system integration segment: its revenue increased from approximately HK$128,000 to approximately HK$316,000 which represents an increase of approximately 146.9% as compared with that of last year.

ii) Information technology consultancy services segment: its revenue dropped from approximately HK$829,000 in last year to approximately HK$100,000 in 2007. The profit margin of this segment is still low and the keen competition in this information technology consultancy industry is the main reason for the decrease.

iii) Trading of hardware and software segment: this is a new business segment which is conducted in the PRC. It contributes approximately 83.9% of the total revenue of the Group and the profit margin is about 34.6%. As there is a rapid growth in the economy of the PRC, a high demand for information technology hardware and software is noted.

The Group will continue to develop its information technology consultancy services and trading of hardware and software and also to seek to invest in the natural resources sector, which the Directors are of view that the Mine Acquisition represents a good opportunity for the Group to diversify into the gold mining business in the PRC.

Employee information

As at 31 December 2007, the Group employed a total number of 16 (2006: 9) employees. The staff costs, including Directors' remuneration and share-based payment, were approximately HK$14,238,000 (2006: HK$1,706,000).

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

Charge on group assets

As at 31 December 2007, a fixed deposit of HK$200,000 was pledged for obtaining the corporate card services. (2006: Nil).

Future plans for material investments or capital assets

Other than the Mine Acquisition, there was no specific plan for material investments and acquisition of material capital assets as at 31 December 2007. However, the Group will continue to seek new business development opportunities.

Gearing ratio

As at 31 December 2007, the gearing ratio of the Group was approximately 0.046 (2006:-1.01), based on the total borrowings of approximately HK$4,157,000 (2006: approximately HK$24,456,000) and total equity of approximately HK$89,423,000 (2006: approximately HK$24,288,000).

Exposure to fluctuation in exchange rates

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

Contingent liabilities

As at 31 December 2007, the Group had no significant contingent liabilities (2006: Nil).

For the Target

Operational review

The Target was incorporated in the BVI with limited liability on 30 March 2007. The operating profit of the Target Group for the year ended 2007 is approximately HK$8,793,000. The profit is mainly derived from the negative goodwill of HK$9,745,000 acquired net off by the administrative expenses of approximately HK$955,000.

Financial review

Liquidity and financial resources

The principal activity of the Target is investment holding and it financed its operations primarily with internally generated cash flow. As at 31 December 2007, the Target Group had cash and cash equivalents of approximately HK$26,000.

Capital structure

As at 31 December 2007, the Target Group has issued and fully paid capital of US$1 (equivalent to approximately HK$8).

Investment, material acquisition and disposal of subsidiaries and affiliated companies

During the year ended 31 December 2007, the Target had acquired the Subsidiary which was newly incorporated on 27 April 2007.

Segment comments

As there is no revenue generated from ordinary activities of the Target, no segment information is required to be disclosed.

Employee information

Since the Target is an investment holding company, no employee information is available as at 31 December 2007.

Charge on group assets

As at 31 December 2007, no asset of the Target was pledged.

Future plans for material investments or capital assets

On 4 January 2008, the Agreement was entered into. *(Details of the Acquisition are set out in the section headed "Letter from the Board" in this circular)*

Gearing ratio

As at 31 December 2007, the gearing ratio of the Target Group was approximately 0.086, based on the total borrowings of approximately HK$963,000 and total equity of approximately HK$11,229,000.

Exposure to fluctuation in exchange rates

The Target has no significant foreign exchange rate risk due to limited foreign currency transactions.

For the Subsidiary

Operational review

The Subsidiary was incorporated in Hong Kong with limited liability on 27 April 2007. The operating profit for the year ended 2007 is approximately HK$8,816,000. The profit is mainly derived from the negative goodwill of HK$9,745,000 acquired net off by the administrative expenses of approximately HK$932,000.

Financial review

Liquidity and financial resources

The principal activity of the Subsidiary is investment holding and it financed its operations primarily with internally generated cash flow. As at 31 December 2007, the Subsidiary had cash and cash equivalents of approximately HK$26,000.

Capital structure

As at the year ended 31 December 2007, the Subsidiary has issued and fully paid capital of HK$1.

Segment comments

As there is no revenue generated from the ordinary activities of the Subsidiary, no segment information is required to be disclosed.

Employee information

Since the Subsidiary is an investment holding company, no employee information is available as at 31 December 2007.

Charge on group assets

As at 31 December 2007, no asset of the Subsidiary was pledged.

Future plans for material investments or capital assets

On 4 January 2008, the Agreement was entered into. *(Details of the Acquisition are set out in the section headed "Letter from the Board" in this circular)*

Gearing ratio

As at 31 December 2007, the gearing ratio of the Subsidiary was approximately 0.084, based on the total borrowings of approximately HK$948,000 and total equity of approximately HK$11,252,000.

Exposure to fluctuation in exchange rates

The Target has no significant foreign exchange rate risk due to limited foreign currency transactions.

For the CJV

Operational review

The CJV was founded on 14th May 2004. For the year ended 2007, the CJV has been undergoing exploration in the authorised location and therefore, during the year 2004 to 2007 the CJV has no revenue.

The operating losses of the CJV for the year ended 2005, 2006 and 2007 are RMB438,000, RMB564,000 and RMB197,000 respectively. The increase in year 2005 to 2006 is mainly due to the increase in administrative expense of RMB115,000 and the decrease in 2006 to 2007 is mainly due to the decrease in administrative expenses of RMB371,000.

Financial review

Liquidity and financial resources

The CJV financed its operations primarily with internally generated cash flow. As at 31 December 2005, 2006 and 2007, the CJV had cash and cash equivalents of approximately RMB1,765,000, RMB359,000 and RMB1,000 respectively.

Capital structure

As at the year ended 2005, 2006 and 2007, the CJV has paid-up capital of RMB4,077,000, RMB12,097,000 and RMB12,097,000 respectively.

Investment, material acquisition and disposal of subsidiaries and affiliated companies

There is no investment, material acquisition and disposal of subsidiaries and affiliated companies during the period from 2005 to 2007.

Segment comments

As there is no revenue generated from ordinary activities of the CJV, no segment information is required to be disclosed.

Employee information

As at the year ended 31 December 2005, 2006 and 2007, the CJV employed a total number of 2, 2 and 4 employees respectively. The staff costs were approximately RMB124,000 in 2005, RMB152,000 in 2006 and RMB179,000 in 2007.

Charge on group assets

As at 31 December 2005, 2006 and 2007, no group assets were pledged.

Future plans for material investments or capital assets

On 4 January 2008, the Agreement was entered into. *(Details of the Acquisition are set out in the section headed "Letter from the Board" in this circular)*

Gearing ratio

As at the year ended 31 December 2005, 2006 and 2007, the gearing ratio of the CJV was nil for the three years, as there is no borrowings of the CJV.

Exposure to fluctuation in exchange rate

The CJV has no significant foreign exchange risk due to limited foreign currency translations for the year ended 31 December 2005, 2006 and 2007.

Contingent liabilities

As at 31 December 2005, 2006 and 2007, the CJV had no significant contingent liabilities.

4. INDEBTEDNESS, LIQUIDITY AND FINANCIAL RESOURCES

Borrowings

As at the close of business on 31 March 2008, being the latest practicable date for the purpose of ascertaining certain information relating to this indebtedness statement prior to the printing of this circular, the Enlarged Group had total outstanding borrowings of approximately of HK$12,795,500, comprising unsecured current borrowing of approximately of HK$12,771,000 from a shareholder and unsecured non-current borrowing of approximately of HK$24,500 from a past minority shareholder of subsidiary. Both current and the non-current borrowing are interest-free.

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not, at the close of business on 31 March 2008, have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitment, hire purchase commitment, liabilities under acceptance (other than normal trade bills and payables), acceptance credits or any guarantees or other contingent liabilities.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate rates of exchange prevailing at the close of business on 31 March 2008.

The Directors are not aware of any material changes in the Enlarged Group's indebtedness and contingent liabilities since 31 March 2008.

5. WORKING CAPITAL

The Directors are of the opinion that taking into account the existing cash and bank balances and the borrowings from a shareholder and a past minority shareholder of subsidiary, the Enlarged Group has sufficient working capital for its present requirements and up to the period ending 31 May 2009.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, being the date of which the latest audited financial statements of the Group were made up.

7. FINANCIAL AND TRADING PROSPECTS

The Group is principally engaged in the provision of web page design and website maintenance services, system integration services and information technology consultancy services and sale of software products. The Group is considering to concentrate on the business segments of information technology consultancy services and sale of software products.

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 with an acquisition of a gold mine project in the PRC, being the subject matter of this circular. The Directors are of the view that the Acquisition represents a good opportunity to invest in the natural resources sector, and enables the Group to diversify into gold mining business in the PRC.

The following is the text of a report on Leland, as extracted from the circular of the Company dated 29 January 2008, received from the independent reporting accountants, Grant Thornton.

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton
均富會計師行

29 January 2008

The Directors
Glory Future Group Limited
Unit 1006, 10th Floor
Tower One Lippo Centre
No. 89 Queensway
Hong Kong

Dear Sirs,

We set out below our report on the financial information of Leland Solutions Limited ("Leland") in Sections I and II below, including the balance sheets of Leland as at 31 December 2005, 31 December 2006 and 30 September 2007, income statements, cash flow statements and statements of changes in equity for the period from 23 August 2005 (date of incorporation) to 31 December 2005, the year ended 31 December 2006 and the nine months ended 30 September 2007 (the "Relevant Periods") and notes thereto, prepared for inclusion in the circular (the "Circular") dated 29 January 2008 issued by Glory Future Group Limited (the "Company") in connection with the acquisition of 49% equity interests in Leland by a wholly-owned subsidiary of the Company (the "Acquisition").

Leland is a limited liability company incorporated in Hong Kong with 100,000 issued and fully paid ordinary shares of HK$1 each. The address of Leland's registered office and principal place of business is Unit 1006, 10th Floor, Tower One Lippo Centre, No. 89 Queensway, Hong Kong. Leland is principally engaged in the provision of web page design, website maintenance, system integration and information technology consultancy services.

The financial statements of Leland were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance. Leland has adopted 31 December as its financial year-end date. No audited financial statements have been prepared for the nine months ended 30 September 2007. The financial statements (the "Underlying Financial Statements") of Leland for the period from 23 August 2005 (date of incorporation) to 31 December 2005 and the year ended 31 December 2006 were audited by us.

For the purpose of this report, the directors of Leland have prepared the financial statements of Leland for the nine months ended 30 September 2007 ("the 30 September 2007 Information") in accordance with HKFRSs and the Hong Kong Companies Ordinance.

We have, for the purpose of this report, carried out appropriate audit procedures in respect of the 30 September 2007 Information, in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The financial information and the notes thereto for the Relevant Periods (the "Financial Information") as set out in this report has been prepared by the directors of Leland based on the Underlying Financial Statements and the 30 September 2007 Information and in accordance with HKFRSs. For the purpose of this report, we have examined the Financial Information of Leland and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The directors of Leland are responsible for the preparation of the Underlying Financial Statements, 30 September 2007 Information and the Financial Information which give a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of Leland as at 31 December 2005, 31 December 2006, and 30 September 2007 and of the results and cash flows of Leland for each of the Relevant Periods.

For the purpose of this report, we have reviewed the unaudited financial information of Leland including the income statement, cash flow statement and statement of changes in equity for the nine months ended 30 September 2006 (the "30 September 2006 Corresponding Information"), which are prepared in accordance with HKFRSs and for which the directors of Leland are responsible, in accordance with Statement of Auditing Standard 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA. Our review consists principally of making enquires of management and applying analytical procedures to the 30 September 2006 Corresponding Information, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the 30 September 2006 Corresponding Information.

For the purpose of this report and on the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the unaudited 30 September 2006 Corresponding Information presented for the nine months ended 30 September 2006.

I. FINANCIAL INFORMATION

Income Statements

	Notes	Period from 23 August 2005 (date of incorporation) to 31 December 2005 HK$'000	Year ended 31 December 2006 HK$'000	Nine months ended 30 September 2007 HK$'000	Nine months ended 30 September 2006 HK$'000 (unaudited)
Revenue	5	540	964	196	636
Cost of services provided		(536)	(884)	(143)	(637)
Gross profit/(loss)		4	80	53	(1)
Other income	5	–	5	14	5
Selling and distribution expenses		–	(200)	(142)	(138)
Administrative expenses		(415)	(732)	(250)	(617)
Operating loss		(411)	(847)	(325)	(751)
Finance costs		(2)	(44)	(119)	(29)
Loss before income tax	6	(413)	(891)	(444)	(780)
Income tax expense	7	–	–	–	–
Loss for the period/year		(413)	(891)	(444)	(780)

Balance Sheets

		As at 31 December		As at 30 September
		2005	2006	2007
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*8*	20	38	17
Current assets				
Inventories	*9*	–	65	65
Trade receivables	*10*	187	14	123
Prepayments		2	–	5
Cash and cash equivalents	*11*	327	145	1,552
		516	224	1,745
Current liabilities				
Trade payables	*12*	30	–	–
Accrued liabilities and other payables		52	81	42
Amount due to a fellow subsidiary	*13*	104	78	83
Amounts due to directors	*14*	13	–	–
Loan from a related company	*15*	602	1,233	3,211
		801	1,392	3,336
Net current liabilities		(285)	(1,168)	(1,591)
Total assets less current liabilities		(265)	(1,130)	(1,574)
Non-current liabilities				
Amount due to a shareholder	*16*	(98)	(74)	(74)
Net liabilities		(363)	(1,204)	(1,648)
EQUITY				
Share capital	*17*	50	100	100
Accumulated losses		(413)	(1,304)	(1,748)
Total equity		(363)	(1,204)	(1,648)

Cash Flow Statements

	Period from 23 August 2005 (date of incorporation) to 31 December 2005	Year ended 31 December 2006	Nine months ended 30 September 2007	Nine months ended 30 September 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Cash flows from operating activities				
Loss before income tax	(413)	(891)	(444)	(780)
Adjustments for:				
Depreciation	5	17	21	14
Interest income	–	(5)	(14)	(5)
Interest expenses	2	44	119	29
Operating loss before working capital changes	(406)	(835)	(318)	(742)
Increase in inventories	–	(65)	–	(65)
(Increase)/decrease in trade receivables	(187)	173	(109)	179
(Increase)/decrease in prepayments	(2)	2	(5)	–
Increase/(decrease) in trade payables	30	(30)	–	(30)
Increase/(decrease) in accrued liabilities and other payables	52	29	(39)	(15)
Increase in amount due to a fellow subsidiary	104	–	5	–
Increase/(decrease) in amounts due to directors	13	(13)	–	(13)
Cash used in operations	(396)	(739)	(466)	(686)
Interest paid	–	(13)	(141)	(13)
Net cash used in operating activities	(396)	(752)	(607)	(699)
Cash flows from investing activities				
Purchases of property, plant and equipment	–	(35)	–	(35)
Interest received	–	5	14	5
Net cash generated from/(used in) investing activities	–	(30)	14	(30)

	Period from 23 August 2005 (date of incorporation) to 31 December 2005	Year ended 31 December 2006	Nine months ended 30 September 2007	Nine months ended 30 September 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Cash flows from financing activities				
Proceeds from issue of shares	25	–	–	–
Advance of loan from a related company	600	1,200	3,200	1,200
Repayment of loan to a related company	–	(600)	(1,200)	(600)
Advance from a shareholder	98	–	–	–
Net cash generated from financing activities	723	600	2,000	600
Net increase/(decrease) in cash and cash equivalents	327	(182)	1,407	(129)
Cash and cash equivalents at beginning of period/year	–	327	145	327
Cash and cash equivalents at end of period/year	327	145	1,552	198

Statements of Changes in Equity

	Share capital	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
Issue of shares	50	–	50
Loss for the period (Total recognised income and expense for the period)	–	(413)	(413)
At 31 December 2005 and 1 January 2006	50	(413)	(363)
Issue of shares	50	–	50
Loss for the year (Total recognised income and expense for the year)	–	(891)	(891)
At 31 December 2006 and 1 January 2007	100	(1,304)	(1,204)
Loss for the period (Total recognised income and expense for the period)	–	(444)	(444)
At 30 September 2007	100	(1,748)	(1,648)

For the nine months ended 30 September 2006 (Unaudited)

	Share capital	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2006	50	(413)	(363)
Loss for the period (Total recognised income and expense for the period)	–	(780)	(780)
At 30 September 2006	50	(1,193)	(1,143)

II. NOTES TO THE FINANCIAL INFORMATION AND THE 30 SEPTEMBER 2006 CORRESPONDING INFORMATION

1. BASIS OF PRESENTATION

The Financial Information and the 30 September 2006 Corresponding Information set out in this report have been prepared in accordance with HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA and the Hong Kong Companies Ordinance and have been consistently applied throughout the Relevant Periods.

The Financial Information and the 30 September 2006 Corresponding Information also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM Listing Rules") of The Stock Exchange of Hong Kong Limited ("Stock Exchange").

2. ADOPTION OF NEW AND AMENDED HKFRSs

Leland has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of Leland anticipate that the adoption of such HKFRSs will not result in material financial impact on the Financial Information and the 30 September 2006 Corresponding Information for the Relevant Periods.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	Group and Treasury Share Transactions[2]
HK(IFRIC) – Int 12	Service Concession Arrangements[3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

Notes:

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 January 2008
4 Effective for annual periods beginning on or after 1 July 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The significant accounting policies that have been adopted in the preparation of the Financial Information and the 30 September 2006 Corresponding Information are summarised below. These policies have been consistently applied to all the periods/years presented unless otherwise stated. The Financial Information and the 30 September 2006 Corresponding Information have been prepared on the historical cost basis.

Leland incurred loss of HK$413,000, HK$891,000, HK$780,000 and HK$444,000 for the period ended 31 December 2005, year ended 31 December 2006, nine months ended 30 September 2006 and 30 September 2007 respectively. In addition, Leland had net liabilities of HK$363,000, HK$1,204,000 and HK$1,648,000 as at 31 December 2005, 31 December 2006 and 30 September 2007 respectively.

Notwithstanding this, the Financial Information has been prepared on a going concern basis on the assumption that Leland will continue to operate as a going concern. The going concern basis has been adopted on the basis of the continuing financial support from the Company.

Should Leland be unable to continue in business as a going concern, adjustments might have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and current liabilities respectively. These adjustments have not been reflected in the Financial Information.

(b) Revenue recognition

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

Revenue from the rendering of services is recognised when the relevant services have been rendered.

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

(c) Property, plant and equipment

Measurement bases

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

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

Depreciation

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

Furniture, fixtures and fittings	2 years
Computer and office equipment	2 years

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

Gain or loss on disposal

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

(d) Impairment of assets

Property, plant and equipment are subject to impairment testing and are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

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

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

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

(e) Leases

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

Leases which do not transfer substantially all the risks and rewards of ownership to Leland are classified as operating leases.

Where Leland has the right to use the assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

(f) Financial assets

Leland's financial assets include trade receivables and cash and cash equivalents.

All financial assets are recognised when, and only when, Leland becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

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

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

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

(g) Inventories

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

(h) Accounting for income tax

Income tax comprises current tax and deferred tax.

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

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

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

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

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

(i) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand which form an integral part of Leland's cash management.

(j) Share capital

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

The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.

(k) Retirement benefit costs and short term employee benefits

Defined contribution plan

Leland 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. A defined contribution plan is a pension plan under which Leland pays fixed contributions into a separate entity. Leland has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. Contributions are made based on a percentage of the employees' basic salary to the maximum mandatory contributions as required by the MPF Scheme and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature. The assets of the MPF Scheme are held separately from those of Leland in an independently administered fund. Leland's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(l) Share-based employee compensation

Under the transitional provision provided for under HKFRS 2, all share-based payment arrangements granted after 7 November 2002 and have not yet vested at 1 January 2005 are recognised in the financial statements. The Company operates equity-settled share-based compensation plans for the remuneration of the employees of the Company and its subsidiaries including Leland.

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

For the share options granted by the Company to Leland's directors and employees, the share-based compensation is ultimately recognised as an expense in income statement with a corresponding increase in equity (capital contribution from ultimate holding company). If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

(m) Financial liabilities

Leland's financial liabilities include trade payables, accrued liabilities and other payables, balances with group companies, directors and a related company.

Financial liabilities are recognised when Leland becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

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

(n) Related parties

A party is considered to be related to Leland if:

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

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

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

(iii) the party is an associate;

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

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

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

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

(o) Segment reporting

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

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment.

Leland's main operations and customers are located in Hong Kong. Accordingly, no further analysis by geographical segment is provided.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The management of Leland did not use any critical accounting estimates and judgements in the preparation of the financial statements.

5. REVENUE

Revenue, which is also Leland's turnover, represents the total invoiced value of services rendered. An analysis of revenue and other income is as follows:

	Period from 23 August 2005 (date of incorporation) to 31 December 2005	**Year ended 31 December 2006**	**Nine months ended 30 September 2007**	**Nine months ended 30 September 2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Revenue				
Sales	540	964	196	636
Other income				
Interest income	–	5	14	5

6. LOSS BEFORE INCOME TAX

	Period from 23 August 2005 (date of incorporation) to 31 December 2005	Year ended 31 December 2006	Nine months ended 30 September 2007	Nine months ended 30 September 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Loss before income tax is arrived at after charging:				
Cost of services provided*	536	884	143	637
Auditors' remuneration	50	55	–	–
Depreciation	5	17	21	14
Minimum lease payments under operating leases on land and buildings	40	–	–	–
Interest expense on loan from a related company	2	44	119	29
Staff cost (including directors' emoluments – *note 18*)				
Wages and salaries	381	881	472	732
Pension scheme contributions	12	34	17	28
Amount charged to income statement	393	915	489	760

* Cost of services provided included approximately HK$104,000, HK$123,000, HK$123,000 and HK$139,000 for the period ended 31 December 2005, year ended 31 December 2006, nine months ended 30 September 2006 and 30 September 2007 respectively relating to staff costs and approximately HK$3,000, HK$6,000, HK$6,000 and HK$4,000 for the period ended 31 December 2005, year ended 31 December 2006, nine months ended 30 September 2006 and 30 September 2007 respectively relating to pension scheme contributions, which are also included in the respective total amount disclosed above.

7. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided for each of the Relevant Periods as Leland did not derive any assessable profit arising in Hong Kong during each of the Relevant Periods.

Reconciliation between income tax expense and accounting loss at applicable tax rates is as follows:

	Period from 23 August 2005 (date of incorporation) to 31 December 2005	**Year ended 31 December 2006**	**Nine months ended 30 September 2007**	**Nine months ended 30 September 2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Loss before income tax	(413)	(891)	(444)	(780)
Tax on loss, calculated at Hong Kong profits tax rate of 17.5%	(72)	(156)	(77)	(136)
Tax effect of non-deductible expenses	1	11	–	11
Tax effect of non-taxable revenue	–	(1)	(2)	(1)
Tax effect of temporary difference not recognised	(3)	(4)	3	(3)
Tax effect of tax losses not recognised	74	150	76	129
Income tax expense	–	–	–	–

Leland has tax loss arising in Hong Kong of approximately HK$425,000, HK$1,162,000, HK$1,281,000 and HK$1,721,000 as at 31 December 2005, 30 September 2006, 31 December 2006 and 30 September 2007 respectively that are available indefinitely for offsetting against future taxable profits of Leland. Deferred tax assets have not been recognised in respect of these losses as it is uncertain that sufficient future taxable profits will be available for utilising the tax loss.

8. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and fittings	Computer and office equipment	Total
	HK$'000	*HK$'000*	*HK$'000*
Period ended 31 December 2005			
Additions	17	8	25
Depreciation	(3)	(2)	(5)
Closing net book amount	14	6	20
At 31 December 2005			
Cost	17	8	25
Accumulated depreciation	(3)	(2)	(5)
Net book amount	14	6	20
Year ended 31 December 2006			
Opening net book amount	14	6	20
Additions	–	35	35
Transfer	(8)	8	–
Depreciation	(3)	(14)	(17)
Closing net book amount	3	35	38
At 31 December 2006			
Cost	9	51	60
Accumulated depreciation	(6)	(16)	(22)
Net book amount	3	35	38
Nine months ended 30 September 2007			
Opening net book amount	3	35	38
Depreciation	(3)	(18)	(21)
Closing net book amount	–	17	17
At 30 September 2007			
Cost	9	51	60
Accumulated depreciation	(9)	(34)	(43)
Net book amount	–	17	17

9. INVENTORIES

	As at 31 December		As at 30 September
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Finished goods	–	65	65

10. TRADE RECEIVABLES

	As at 31 December		As at 30 September
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	187	14	123

Leland allows an average credit term of 30 – 90 days to its trade customers. Leland's sales are billed to customers according to the terms of the relevant agreements. As at 31 December 2005, 31 December 2006 and 30 September 2007, based on the invoice dates, the ageing analyses of the trade receivables were as follows:

	As at 31 December		As at 30 September
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
0 – 30 days	32	13	88
31 – 60 days	–	–	24
61 – 90 days	155	–	11
>90 days	–	1	–
Trade receivables	187	14	123

11. CASH AND CASH EQUIVALENTS

	As at 31 December		As at 30 September
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Cash at banks	327	145	1,552

Cash at banks earns interest at floating rates based on daily bank deposit rates.

12. TRADE PAYABLES

	As at 31 December		As at 30 September
	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	30	–	–

As at 31 December 2005, 31 December 2006 and 30 September 2007, the ageing analyses of the trade payables were as follows:

	As at 31 December		As at 30 September
	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
0 – 30 days	30	–	–

13. AMOUNT DUE TO A FELLOW SUBSIDIARY

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

14. AMOUNTS DUE TO DIRECTORS

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

15. LOAN FROM A RELATED COMPANY

Pursuant to a loan agreement signed between Leland and Sun Wah Net Investment Limited ("Sun Wah"), one of the then shareholders of the Company, dated 24 November 2005, a short-term loan of HK$600,000 (the "First Loan") was advanced from Sun Wah which is unsecured, interest bearing at 4% per annum and repayable on 28 May 2006. The balance of this loan stated at amortised cost using the effective interest method was approximately HK$602,000 as at 31 December 2005.

Pursuant to a loan agreement signed between Leland and Sun Wah dated 12 June 2006, a new short-term loan of HK$1.2 million was advanced from Sun Wah (the "Second Loan") partly for repayment of the principal of HK$0.6 million and accrued interest of the First Loan. Thereafter, the balance of fund of the Second Loan of approximately HK$0.6 million was retained as the working capital of Leland. The Second Loan is unsecured, interest-bearing at 5% per annum and repayable on 12 August 2006. The Second Loan had not yet been repaid as at 31 December 2006 and Sun Wah did not demand for the repayment of the said loan. As at 31 December 2006, the balance of the Second Loan at amortised cost using the effective interest method, was approximately HK$1,233,000.

Pursuant to another loan agreement signed between Leland and Sun Wah dated 13 March 2007, a new loan of HK$3.2 million was advanced from Sun Wah (the "Third Loan") for repayment of the principal and accrued interest of the Second Loan as mentioned above. The balance of the Third Loan was retained as working capital of Leland. This loan is unsecured, interest-bearing at 8% per annum and repayable on 15 May 2008. As at 30 September 2007, the balance of the Third Loan at amortised cost using the effective interest method, was approximately HK$3,211,000.

16. AMOUNT DUE TO A SHAREHOLDER

Pursuant to a shareholder agreement signed between E-silkroad.net Corporation and Sun Rise Int'l Trading Limited ("Sun Rise") dated 1 August 2005, both parties agreed and jointly established Leland during the period ended 31 December 2005. The total issued and fully paid capital of Leland was HK$50,000. E-silkroad.net Corporation and Sun Rise have 51% and 49% shareholding in Leland respectively as at 31 December 2005. E-silkroad.net Corporation and Sun Rise have mutually agreed to make a total investment commitment in Leland of not more than HK$250,000 (including the initial capital contribution). After the initial capital contribution of HK$50,000, the remaining investment commitment of HK$200,000 was contributed by E-silkroad.net Corporation of HK$102,000 and Sun Rise of HK$98,000 by way of a long-term loan to Leland. The balance was due to Sun Rise as at 31 December 2005, 31 December 2006 and 30 September 2007 and is unsecured, interest-free and not repayable within the next twelve months after each of the balance sheet dates. The terms were negotiated at the dates as mutually agreed between Leland and Sun Rise.

The carrying amounts of the balances due to minority shareholders approximate their fair values.

17. SHARE CAPITAL

	Number of shares	*HK$'000*
Authorised:		
Ordinary shares of HK$1 each		
at date of incorporation	1,000,000	1,000
At 31 December 2005, 31 December 2006		
and 30 September 2007	1,000,000	1,000
Issued and fully paid:		
Ordinary shares of HK$1 each		
At date of incorporation	50,000	50
At 31 December 2005 and 1 January 2006	50,000	50
Issue of shares *(Note)*	50,000	50
At 31 December 2006 and 30 September 2007	100,000	100

Note: On 1 December 2006, 50,000 ordinary shares were issued to E-silkroad.net Corporation and Sun Rise.

18. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENT

(a) Directors' emoluments

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

	Fees	Salaries and allowances	Contributions to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Period from 23 August 2005 (date of incorporation) to 31 December 2005				
Directors				
Choi Koon Ming *(Note 1)*	–	–	–	–
Chow Yeung Tuen, Richard *(Note 1)*	–	–	–	–
Ng Kam Yiu *(Note 1)*	–	–	–	–
Ng Wai Man *(Note 1)*	–	156	4	160
Cheung Chun Ming, Davy *(Note 1)*	–	150	4	154
Choi Fuk Cheun *(Note 1)*	–	–	–	–
	–	306	8	314
Year ended 31 December 2006				
Directors				
Choi Koon Ming	–	–	–	–
Chow Yeung Tuen, Richard	–	–	–	–
Ng Kam Yiu	–	–	–	–
Ng Wai Man *(Note 2)*	–	207	7	214
Cheung Chun Ming, Davy	–	360	12	372
Choi Fuk Cheun	–	–	–	–
	–	567	19	586
Nine months ended 30 September 2007				
Directors				
Choi Koon Ming	–	–	–	–
Chow Yeung Tuen, Richard	–	–	–	–
Ng Kam Yiu *(Note 3)*	–	–	–	–
Cheung Chun Ming, Davy *(Note 4)*	–	307	9	316
Choi Fuk Cheun	–	–	–	–
	–	307	9	316
Nine months ended 30 September 2006 (unaudited)				
Directors				
Choi Koon Ming	–	–	–	–
Chow Yeung Tuen, Richard	–	–	–	–
Ng Kam Yiu	–	–	–	–
Ng Wai Man *(Note 2)*	–	207	7	214
Cheung Chun Ming, Davy	–	270	9	279
Choi Fuk Cheun	–	–	–	–
	–	477	16	493

There was no arrangement under which a director waived or agreed to waive any remuneration for the period ended 31 December 2005, year ended 31 December 2006, nine months ended 30 September 2006 and 30 September 2007 respectively.

Notes:

1. Appointed on 23 August 2005

2. Resigned on 28 September 2006

3. Resigned on 29 June 2007

4. Resigned on 30 September 2007

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in Leland included two, two, two and one of the directors for period ended 31 December 2005, year ended 31 December 2006, nine months ended 30 September 2006 and 30 September 2007 respectively and whose emoluments are reflected in the analysis presented above. Leland did not have 5 highest paid individuals (including the directors) during the period ended 31 December 2005, year ended 31 December 2006, nine months ended 30 September 2006 and 30 September 2007 and the emoluments payable to the remaining highest paid individuals are as follows:

	Period from 23 August 2005 (date of incorporation) to 31 December 2005	**Year ended 31 December 2006**	**Nine months ended 30 September 2007**	**Nine months ended 30 September 2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Basic salaries, allowances and other benefits in kind	75	314	165	255
Contributions to pension scheme	4	15	8	12
	79	329	173	267

The emoluments fell within the following band:

	Number of individuals			
	Period from 23 August 2005 (date of incorporation) to 31 December 2005	Year ended 31 December 2006	Nine months ended 30 September 2007	Nine months ended 30 September 2006 (unaudited)
Emolument band HK$nil – HK$1,000,000	1	2	2	2

During the period ended 31 December 2005, year ended 31 December 2006, nine months ended 30 September 2006 and 30 September 2007, no emoluments were paid by Leland to the five highest paid employees or the directors as an inducement to join, or upon joining Leland, or as compensation for loss of office.

19. SHARE-BASED EMPLOYEE COMPENSATION

The Company operates a share option (the "Old Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of operations of the Company and its subsidiaries. The eligible participants of the Old Scheme include the employees of the Company and its subsidiaries. The Old Scheme became effective on 2 March 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from its date of adoption on 19 February 2001.

The exercise period of the share options granted is determinable by the Company's directors, and shall not be less than three years and not be later than ten years from the date of the offer of the share options or the expiry date of the share option scheme, if earlier.

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

The share-based employee compensation will be settled in the Company's equity. The Company has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

Ordinary resolutions approving the termination of the Old Scheme and the adoption of the new share option scheme of the Company ("New Scheme") were duly passed at the annual general meeting of the Company held on 29 June 2007. No further share options would be granted under the Old Scheme but the Old Scheme would in all other respects remain in force to the extent necessary to give effect to the exercise of the outstanding options granted under it prior to its termination.

Detailed movements in the Old Scheme related to the employees (including directors) of Leland in respect of their services rendered to Leland's fellow subsidiaries and the Company for the period ended 31 December 2005 and year ended 31 December 2006:

	Number of share options							
Directors	At 1 January 2005	Lapsed during the period	Adjusted on 17 November 2005**	At 31 December 2005 and 31 December 2006	Date of grant of share options	Exercise period of share options*	Exercise price of share options**	Closing price of shares immediately before the date of grant of options**
							HK$	*HK$*
Mr. Choi Koon Ming	7,500,000	–	(6,750,000)	750,000	21 January 2003	21 January 2003 to 20 January 2008	1.15	1.14
Mr. Ng Kam Yiu	3,000,000	–	(2,700,000)	300,000	21 January 2003	8 January 2004 to 7 January 2009	1.15	1.14
Mr. Chow Yeung Tuen, Richard	3,000,000	–	(2,700,000)	300,000	21 January 2003	21 January 2003 to 20 January 2008	1.15	1.14
	13,500,000	–	(12,150,000)	1,350,000				

Detailed movements in the Old Scheme related to the employees (including directors) of Leland in respect of their services rendered to Leland's fellow subsidiaries and the Company for the nine months ended 30 September 2007:

Directors	At 1 January 2007	Lapsed during the period	Adjusted on 23 August 2007##	Exercised during the period##	At 30 September 2007	Date of grant of share options	Exercise period of share options*	Exercise price of share options## HK$	Closing price of shares immediately before the date of grant of options## HK$	Closing price of shares at exercise date of options## HK$
	Number of share options									
Mr. Choi Koon Ming	750,000	–	14,250,000	(15,000,000)	–	21 January 2003	21 January 2003 to 20 January 2008	0.0574	0.057	0.19
Mr. Ng Kam Yiu *(Note 1)*	300,000	–	5,700,000	(6,000,000)	–	21 January 2003	8 January 2004 to 7 January 2009	0.0574	0.057	0.107
Mr. Chow Yeung Tuen, Richard	300,000	–	5,700,000	(6,000,000)	–	21 January 2003	21 January 2003 to 20 January 2008	0.0574	0.057	0.117
	1,350,000	–	25,650,000	(27,000,000)	–					

Detailed movements in the Old Scheme related to the employees (including directors) of Leland in respect of their services rendered to Leland's fellow subsidiaries and the Company for the nine months ended 30 September 2006 (unaudited):

Directors	At 1 January 2006	Lapsed during the period	Cancelled during the period	At 30 September 2006	Date of grant of share options	Exercise period of share options*	Exercise price of share options** HK$	Closing price of shares immediately before the date of grant of options** HK$
	Number of share options							
Mr. Choi Koon Ming	750,000	–	–	750,000	21 January 2003	21 January 2003 to 20 January 2008	1.15	1.14
Mr. Ng Kam Yiu	300,000	–	–	300,000	21 January 2003	8 January 2004 to 7 January 2009	1.15	1.14
Mr. Chow Yeung Tuen, Richard	300,000	–	–	300,000	21 January 2003	21 January 2003 to 20 January 2008	1.15	1.14
	1,350,000	–	–	1,350,000				

* The vesting period of the share options is from the date of the grant until the commencement of the exercised period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. Following the share consolidation of the Company with effect from 17 November 2005, the total number of share options outstanding was reduced by 12,150,000 and the exercise price of the share options outstanding and the closing price of shares immediately before the dates of grant of options had been adjusted from HK$0.115 to HK$1.15 and from HK$0.114 to HK$1.14 accordingly.

Adjustment on the effect of the share subdivision of the Company. Pursuant to an ordinary resolution passed on 22 August 2007, one share of HK$0.01 each in the issued and unissued share capital of the Company was subdivided into twenty shares of HK$0.0005 each. After the share subdivision being effective on 23 August 2007, the exercise price per share and the closing price of the shares immediately before the dates of grant of options had been adjusted from HK$1.15 to HK$0.0574 and HK$1.14 to HK$0.057 respectively.

Notes:

(1) Mr. Ng Kam Yiu retired as a director on 29 June 2007.

None of the options was granted to the directors or employees of Leland for the nine months ended 30 September 2007.

20. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in this report, Leland had the following transactions with related parties during the Relevant Periods:

	Period from 23 August 2005 (date of incorporation) to 31 December 2005	**Year ended 31 December 2006**	**Nine months ended 30 September 2007**	**Nine months ended 30 September 2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)
Interest expense paid to a related company, Sun Wah	2	44	119	29

Note: Leland's office premise was leased by Sun Wah without charging Leland for any rental.

21. NOTES TO CASH FLOW STATEMENTS

Major non-cash transactions

During the period ended 31 December 2005, pursuant to a shareholder agreement signed between E-silkroad.net Corporation and Sun Rise dated 1 August 2005, both parties agreed to jointly establish Leland during the period. E-silkroad.net Corporation, subscribed for 51% of the issued capital of approximately HK$25,000 by way of cash and Sun Rise subscribed the remaining 49% of the issued capital of approximately HK$25,000 by way of the transfer and assignment of certain property, plant and equipment at net book value of approximately HK$25,000.

During the year ended 31 December 2006, the issued capital of Leland was increased from HK$50,000 to HK$100,000. The contribution from E-silkroad.net Corporation was paid by E-silkroad.net Online Exhibition Limited on its behalf by off-setting the amount due to a fellow subsidiary and Sun Rise paid its contribution by way of the transfer from its shareholders' loans to Leland.

22. RISK MANAGEMENT OBJECTIVES AND POLICIES

Leland is exposed to a variety of financial risks which result from its operating activities. Leland's risk management is co-ordinated by its ultimate holding company, in close co-operation with the board of directors, and focuses on actively securing Leland's short to medium term cash flows by minimising the exposure to financial markets.

Leland does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The financial risks relevant to Leland are described below.

(a) Interest rate risk

Leland's exposure to fair value interest rate risk is mainly attributable to its loans from a related company as detailed in note 15. Leland has no cash flow interest rate risk as there are no borrowings which bear floating interest rates.

(b) Foreign currency risk

Leland does not have any significant exposure to foreign currency risk as the transactions are mainly denominated in Hong Kong dollars which is its functional currency.

(c) Credit risk

Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfil its obligation which results in Leland suffering financial loss. The carrying amounts of trade receivables and cash and cash equivalents included in the balance sheet represent Leland's maximum exposure to credit risk in relation to financial assets. No other financial assets carry significant exposure to credit risk. Leland monitors trade receivables on an ongoing basis and only trades with creditworthy third parties. In addition, all Leland's cash and cash equivalents are deposited with major bank located in Hong Kong. Leland had no significant concentrations of credit risk.

(d) Liquidity risk

Leland's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. Leland had net current liabilities of approximately HK$285,000, HK$1,168,000 and HK$1,591,000 and had net liabilities of approximately HK$363,000, HK$1,204,000 and HK$1,648,000 as at 31 December 2005, 31 December 2006 and 30 September 2007 respectively. Leland can maintain its liquidity requirements by obtaining continuing financial support from the Company. In the opinion of directors, Leland's exposure to liquidity risk is limited.

The following table details the remaining contractual maturities at each of the balance sheet dates of Leland's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rates or, if floating, based on rates current at the balance sheet dates) and the earliest date Leland can be required to pay:

	As at 31 December 2005				As at 31 December 2006			
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	30	(30)	(30)	–	–	–	–	–
Accrued liabilities and other payables	52	(52)	(52)	–	81	(81)	(81)	–
Amount due to a fellow subsidiary	104	(104)	(104)	–	78	(78)	(78)	–
Amounts due to directors	13	(13)	(13)	–	–	–	–	–
Loan from a related company	602	(602)	(602)	–	1,233	(1,233)	(1,233)	–
Amount due to a shareholder	98	(98)	–	(98)	74	(74)	–	(74)
	899	(899)	(801)	(98)	1,466	(1,466)	(1,392)	(74)

	As at 30 September 2007			
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accrued liabilities and other payables	42	(42)	(42)	–
Amount due to a fellow subsidiary	83	(83)	(83)	–
Loan from a related company	3,211	(3,211)	(3,211)	–
Amount due to a shareholder	74	(74)	–	(74)
	3,410	(3,410)	(3,336)	(74)

(e) Fair values

The fair values of Leland's trade receivables, cash and cash equivalents, trade payables, accrued liabilities and other payables, amount due to a fellow subsidiary, amounts due to directors and loan from a related company are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The carrying amount of the amount due to a shareholder approximate their fair value.

(f) Summary of financial assets and liabilities by category

The carrying amounts of Leland's financial assets and liabilities as recognised at the balance sheet dates of the Relevant Periods under review may also be catergorised as follows. See notes 3(f) and 3(m) for explanations about how the categorisation of financial instruments affects their subsequent measurement.

	As at 31 December		As at 30 September
	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Current assets			
Loans and receivables:			
– Trade receivables	187	14	123
– Cash and cash equivalents	327	145	1,552
	514	159	1,675
Financial liabilities			
Current liabilities:			
Financial liabilities measured at amortised cost			
– Trade payables	30	–	–
– Accrued liabilities and other payables	52	81	42
– Amount due to a fellow subsidiary	104	78	83
– Amount due to directors	13	–	–
– Loan from a related company	602	1,233	3,211
Non-current liabilities:			
Amount due to a shareholder	98	74	74
	899	1,466	3,410

23. CAPITAL MANAGEMENT

Leland's objectives when managing capital are:

(a) To safeguard Leland's ability to continue as a going concern, so that it continues to provide returns and benefits for its stakeholders;

(b) To support Leland's stability and growth; and

(c) To provide capital for the purpose of strengthening Leland's risk management capability.

Leland actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of Leland and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Leland currently does not adopt any formal dividend policy. Management regards total equity and loan from a related company as capital, for capital management purpose.

24. SEGMENT INFORMATION

Leland's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of Leland'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. Details of the business segments are summarised as follows:

(a) the web page design and website maintenance segment provides application and web page development work and monthly services for maintaining and updating website services;

(b) the system integration segment provides services including hardware and software management services; and

(c) the information technology consultancy services segment provides services relating to the implementation and application of computer systems.

Leland's main operations and customers are located in Hong Kong. Accordingly, no further analysis by geographical segment is provided.

There was no intersegment sale and transfer during the period ended 31 December 2005, year ended 31 December 2006, and nine months ended 30 September 2006 and 30 September 2007.

Business segments

The following table presents revenue, loss and asset, liability and expenditure information for Leland's business segments for the period ended 31 December 2005 and year ended 31 December 2006:

	Web page design and website maintenance		System integration		Information technology consultancy services		Total	
	Year ended 31 December 2006	Period from 23 August 2005 (date of incorporation) to 31 December 2005	Year ended 31 December 2006	Period from 23 August 2005 (date of incorporation) to 31 December 2005	Year ended 31 December 2006	Period from 23 August 2005 (date of incorporation) to 31 December 2005	Year ended 31 December 2006	Period from 23 August 2005 (date of incorporation) to 31 December 2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:								
Sales to external customers	7	48	128	452	829	40	964	540
Segment results	(12)	(1)	4	5	88	–	80	4
Bank interest income							5	–
Unallocated expenses							(932)	(415)
Operating loss							(847)	(411)
Finance costs							(44)	(2)
Loss before income tax							(891)	(413)
Income tax expense							–	–
Loss for the year/period							(891)	(413)
Segment assets	–	34	102	169	14	4	116	207
Unallocated assets							146	329
Total assets							262	536
Segment liabilities	–	1	–	17	–	12	–	30
Unallocated liabilities							1,466	869
Total liabilities							1,466	899
Other segment information:								
Depreciation	–	3	17	1	–	1	17	5
Capital expenditure	–	22	35	2	–	1	35	25

The following table presents revenue, loss and asset, liability and expenditure information for Leland's business segments for the nine months ended 30 September 2006 and 30 September 2007:

	Web page design and website maintenance Nine months ended 30 September		System integration Nine months ended 30 September		Information technology consultancy services Nine months ended 30 September		Total Nine months ended 30 September	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000* (unaudited)	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*	*HK$'000* (unaudited)
Segment revenue:								
Sales to external customers	5	2	128	100	63	534	196	636
Segment results	5	–	17	(35)	31	34	53	(1)
Bank interest income							14	5
Unallocated expenses							(392)	(755)
Operating loss							(325)	(751)
Finance costs							(119)	(29)
Loss before income tax							(444)	(780)
Income tax expense							–	–
Loss for the period							(444)	(780)
Segment assets	–	–	82	106	123	3	205	109
Unallocated assets							1,557	106
Total assets							1,762	215
Segment liabilities	–	–	–	–	–	–	–	–
Unallocated liabilities							3,410	1,358
Total liabilities							3,410	1,358
Other segment information:								
Depreciation	–	–	21	14	–	–	21	14
Capital expenditure	–	–	–	35	–	–	–	35

25. SUBSEQUENT EVENTS

No significant event has taken place subsequent to 30 September 2007.

26. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Leland in respect of any period subsequent to 30 September 2007.

Yours faithfully,
Grant Thornton
Certified Public Accountants
Hong Kong

The following is the unaudited pro forma financial information of the Group and Leland as if the Acquisition of Leland had been completed. This pro forma financial information is extracted from the circular of the Company dated 29 January 2008.

1. INTRODUCTION

The following is the unaudited pro forma financial information of the Group and Leland prepared in accordance with the GEM Listing Rules for the purpose of illustrating the effect of the Acquisition of Leland ("Leland Acquisition") on the financial position of the Group as if the Acquisition of Leland had been completed on 30 June 2007. As it is prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the financial position of the Group and Leland following the completion of the Leland Acquisition.

The unaudited pro forma statement of assets and liabilities of the Group and Leland is prepared based on the unaudited consolidated balance sheet of the Group as at 30 June 2007 extracted from the published interim report of the Group as at 30 June 2007 as set out in Appendix I of the Company's circular dated 29 January 2008, as if the Leland Acquisition had been completed on 30 June 2007.

2. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES AS AT 30 JUNE 2007

	(Unaudited) The Group as at 30 June 2007	Pro forma adjustments		Proforma Group and Leland
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	31			31
	31			31
Current assets				
Inventories	65			65
Trade receivables	45			45
Prepayments, deposits and other receivables	94			94
Cash and cash equivalents	9,017	(49)	*(a)*	8,968
	9,221			9,172
Current liabilities				
Other payables and accrued charges	(805)			(805)
Loans	(28,016)			(28,016)
	(28,821)			(28,821)
Net current liabilities	(19,600)			(19,649)
Total assets less current liabilities	(19,569)			(19,618)
Non-current liabilities				
Due to minority shareholders of subsidiaries	(474)	73	*(b)*	(401)
Other long term loans	–	(73)	*(b)*	(73)
	(474)			(474)
Net liabilities	(20,043)			(20,092)
Total Equity	(20,043)	(49)	*(a)*	(20,092)

3. NOTE TO THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES

(a) On 26 November 2007, E-silkroad.net Corporation, a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with Sun Rise Int'l Trading Limited in relation to the acquisition by E-silkroad.net Corporation of 49% equity interest in Leland Solutions Limited ("Leland") in which the Company already owned 51% equity interest. The consideration for the Leland Acquisition is HK$49,000 which was determined with reference to the par value of the ordinary shares of Leland. Such consideration shall be satisfied in cash at completion of the Leland Acquisition.

The pro forma adjustment is to reflect the effect of the Acquisition on the consolidated balance sheet of the Group as if the Leland Acquisition had taken place on 30 June 2007. Leland was loss making for several years and the amount of loss allocated to the minority interest was limited to its share of the equity of Leland, the minority interest has already become nil balance in the Group's consolidated balance sheet as at 30 June 2007, and no pro forma adjustment is necessary to eliminate the minority interest. It is the Group's accounting policy to recognise directly in equity the difference between the consideration payable and the amount of minority interest eliminated. The amount recorded in other reserve under equity is therefore equal to the consideration paid by the Group for the Leland Acquisition amounting to HK$49,000.

On Completion, the minority interest of Leland will have to be reassessed. As a result of the reassessment, the amount recorded in equity may be different from the amount based on the basis stated above for the purpose of preparation of the unaudited pro forma financial information. Accordingly, the actual amount recorded in equity at the date of Completion may be different from the amount presented above.

(b) Upon Completion of the Leland Acquisition, amount due to minority shareholders of Leland would become other long term loans.

(c) The unaudited pro forma financial information has been prepared in accordance with the accounting policies of the Group, as set out in the published interim report of the Group as at 30 June 2007 and extracted in Appendix I of the Company's circular dated 29 January 2008, prepared under Hong Kong Financial Reporting Standards.

4. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP AND LELAND

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton
均富會計師行

29 January 2008

The Directors
Glory Future Group Limited
Unit 1006, 10th Floor
Tower One Lippo Centre
No. 89 Queensway
Hong Kong

Dear Sirs

We report on the unaudited pro forma financial information of Glory Future Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of 49% equity interests of Leland Solutions Limited, a subsidiary of the Company, from Sun Rise Int'l Trading Limited, might have affected the financial information presented, for the inclusion in Appendix III of the Company's circular dated 29 January 2008 (the "Circular"). The basis of the preparation of the unaudited pro forma financial information is set out in Section 1 to 3 of the "Unaudited Pro Forma Financial Information of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") on pages 100 to 102 of Appendix III of the Company's Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM 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 (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 31 of Chapter 7 of the GEM Listing Rules, on the Unaudited 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 Unaudited 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 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited 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 Unaudited 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 Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we did not express any such assurance on the Unaudited Pro Forma Financial Information.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements 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 Group as at 30 June 2007 or any future date.

Opinion

In our opinion:

(a) the Unaudited 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 Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Yours faithfully
Grant Thornton
Certified Public Accountants
Hong Kong

The following is the text of a report on the Target Group prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, Grant Thornton.

Grant Thornton
均富

Member of Grant Thornton International Ltd

13 May 2008

The Directors
China Metal Resources Holdings Limited
Unit 1006, 10th Floor
Tower One Lippo Centre
No. 89 Queensway
Hong Kong

Dear Sirs,

We set out below our report on the financial information of China Nonferrous Metals Resources Investment Limited (the "Target") and its subsidiaries (collectively referred to as the "Target Group") in Section I and II below including the company balance sheet of the Target as at 31 December 2007, the consolidated balance sheet of the Target Group as at 31 December 2007, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the period from 30 March 2007 (being date of incorporation of the Target) to 31 December 2007 (the "Relevant Period") and notes thereto (the "Financial Information") prepared for inclusion in the circular of China Metal Resources Holdings Limited (the "Company") dated 13 May 2008 (the "Circular") in connection with the acquisition by the Company of interests in the Target, China Mining Group Investment Limited (the "Subsidiary") and 雲南西部礦業有限公司 (Yunnan Xibu Mining Company Limited) (for identification purpose only) (the "CJV") (the "Acquisition") which was announced by the Company on 23 January 2008.

The Target was incorporated in the British Virgin Islands (the "BVI") with limited liability on 30 March 2007 with an issued and paid up capital of United States Dollars ("US$") 1 (equivalent to Hong Kong Dollar ("HK$") 8). The address of the Target's registered office and its principal place of business is 2nd Floor, Abbott Building, Road Town, Tortola, British Virgin Islands. As at the date of this report, the Target is 100% beneficially owned by Mr Leung Ngai Man, an executive director of the Company.

During the Relevant Period, the principal activity of the Target was investment holding. As at the date of this report, the Target has the following subsidiaries:

Name of the subsidiary	Registered capital	Paid-up capital	Place of establishment	Principal place of operation	Proportion of nominal value of paid-up capital held by the Target	Nature of business
Directly held						
China Mining Group Investment Limited	HK$1	HK$1	Hong Kong	Hong Kong	100%	Investment holding
Indirectly held						
雲南西部礦業有限公司 (Yunnan Xibu Mining Company Limited)	US$3,010,000	US$3,010,000	The People's Republic of China (the "PRC")	The PRC	80%	Exploration of mine

All the companies within the Target Group have adopted 31 December as their financial year-end date.

No audited financial statements have been prepared for the Target since its date of incorporation as there are no statutory audit requirements.

No audit has been performed on the management accounts of the Subsidiary as it was newly incorporated on 27 April 2007.

The statutory financial statements of the CJV were prepared in accordance with the relevant accounting rules and regulations applicable to companies established in the PRC. The CJV has adopted 31 December as its financial year-end date. The statutory financial statements for the year ended 31 December 2007 were audited by 雲南光大會計師事務所有限公司(Yunnan Guangda Certified Public Accountants Co., Ltd.) (for identification purpose only), a firm of certified public accountants registered in the PRC.

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

The Financial Information and the notes thereto for the Relevant Period as set out in this report has been prepared by the directors of the Target based on the Underlying Financial Statements and in accordance with HKFRSs. For the purpose of this report, we have examined the Financial Information of the Target Group and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The director of the Target is responsible for the preparation of the Underlying Financial Statements and the Financial Information which gives a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

Opinion

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the Target Group and the Target as at 31 December 2007 and of the consolidated results and consolidated cash flows of the Target Group for the Relevant Period.

I. FINANCIAL INFORMATION

Consolidated Income Statement
For the period from 30 March 2007 (date of incorporation) to 31 December 2007

	Notes	*HK$'000*
Revenue	*5*	–
Other revenue	*6*	3
Negative goodwill	*25*	9,745
Administrative expenses		(955)
Profit before income tax	*8*	8,793
Income tax expense	*9*	–
Profit for the period		8,793
Attributable to:		
Equity holders of the Target	*10*	8,797
Minority interests		(4)
Profit for the period		8,793

Consolidated Balance Sheet
As at 31 December 2007

	Notes	*HK$'000*
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	*13*	243
Intangible assets – "exploration and evaluation assets"	*14*	11,943
		12,186
Current assets		
Deposits and prepayments	*16*	17
Cash and cash equivalents	*17*	26
		43
Current liabilities		
Other payables and accruals	*18*	37
Amount due to a shareholder	*19*	950
Amount due to a subsidiary's director	*19*	13
		1,000
Net current liabilities		(957)
Total assets less current liabilities/ Net assets		11,229
EQUITY		
Equity attributable to equity holders of the Target		
Share capital	*20*	–
Retained profits		8,797
		8,797
Minority interests		2,432
Total equity		11,229

Balance Sheet

As at 31 December 2007

	Notes	*HK$'000*
ASSETS AND LIABILITIES		
Non-current assets		
Interests in subsidiaries	*15*	–
		–
Current liabilities		
Other payables and accruals	*18*	8
Amount due to a shareholder	*19*	15
		23
Net current liabilities, total assets less current liabilities and net liabilities		(23)
EQUITY		
Share capital	*20*	–
Accumulated loss	*21*	(23)
Total equity		(23)

Consolidated Cash Flow Statement

For the period from 30 March 2007 (date of incorporation) to 31 December 2007

	Notes	*HK$'000*
Cash flows from operating activities		
Profit before income tax		8,793
Adjustments for:		
Interest income		(3)
Depreciation of property, plant and equipment		4
Negative goodwill		(9,745)
Operating loss before working capital changes		(951)
Increase in deposits and prepayments		(16)
Increase in other payables and accruals		26
Increase in amount due to a subsidiary's director		13
Net cash used in operating activities		(928)
Cash flows from investing activities		
Acquisition of a subsidiary (net of cash and cash equivalent acquired)	*25*	1
Interest received		3
Net cash generated from investing activities		4
Cash flows from financing activities		
Advance of loan from a shareholder		950
Net cash generated from financing activities		950
Net increase in cash and cash equivalents		26
Cash and cash equivalents as at 30 March 2007		–
Cash and cash equivalents as at 31 December 2007	*17*	26

Consolidated Statement of Changes in Equity

For the period from 30 March 2007 (date of incorporation) to 31 December 2007

	Equity attributable to the equity holders of the Target				
	Share capital	Accumulated loss	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 30 March 2007 (date of incorporation)	–	–	–	–	–
Acquisition of a subsidiary	–	–	–	2,436	2,436
Profit/(Loss) for the period (Total recognised income and expense for the period)	–	8,797	8,797	(4)	8,793
At 31 December 2007	–	8,797	8,797	2,432	11,229

II. NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION

The Financial Information is presented in HK$, which is also the functional currency of the Target.

The Financial Information set out in this report has been prepared in accordance with HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the HKICPA and have been consistently applied throughout the Relevant Period.

The Target is regarded as a continuing entity resulting from the combination with the Subsidiary on 16 July 2007 since the Subsidiary is under common control with same shareholder of the Target before and immediately after the combination. Consequently, immediately after the combination, there was a continuation of the risks and benefits to the ultimate shareholder that existed prior to the combination. The combination has been accounted for under common control in a manner similar to pooling of interests. Accordingly, the combination has been accounted for using merger accounting in accordance with the Accounting Guideline No. 5 "Merger Accounting for Common Control Combination" issued by the HKICPA, under which the Target is considered as the holding company of the Target Group during the Relevant Period. On 30 November 2007, the Subsidiary acquired 80% equity interests in the CJV in which the Target then held the CJV indirectly. Since the ultimate shareholder of the Subsidiary and the CJV were different, the acquisition has been accounted for using purchase method in preparing the Financial Information.

The Financial Information also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM Listing Rules") of The Stock Exchange of Hong Kong Limited ("Stock Exchange").

2. ADOPTION OF NEW AND AMENDED HKFRSs

The Target Group has adopted all the new and amended HKFRSs which are effective for the accounting periods beginning on 30 March 2007, issued by the HKICPA and relevant to the Target Group in the preparation of the Financial Information throughout the Relevant Period.

The Target Group has not early adopted the following standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
Amendment to HKFRS 2	Share-based Payment-Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[4]
HKFRS 8	Operating Segments [1]
HK(IFRIC) – Int 12	Service Concession Arrangements [2]
HK(IFRIC) – Int 13	Customer Loyalty Programmes [3]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and Their Interaction [2]

Note

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 January 2008

3 Effective for annual periods beginning on or after 1 July 2008

4 Effective for annual periods beginning on or after 1 July 2009

Among these new standards and interpretations, HKAS 1 (Revised) is expected to be relevant to the Target Group's Financial Information.

Amendment to HKAS 1 Presentation of Financial Statements

This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Target Group but will give rise to additional disclosures. Management is currently assessing the detailed impact of this amendment on the Target Group's Financial Information.

The director of the Target is currently assessing the impact of the other new standards and interpretations but is not yet in a position to state whether they would have material financial impact on the Target Group's Financial Information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Financial Information has been prepared in accordance with the significant accounting policies set out below. The Financial Information has been prepared on the historical cost convention. The measurement bases are fully described in the accounting policies below.

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

In preparing the Financial Information, the director of the Target has given consideration to the future liquidity of the Target Group in light of its net current liabilities of approximately HK$957,000 as at 31 December 2007. Notwithstanding this, the Financial Information has been prepared on a going concern basis on the assumption that the Target Group and the Target will continue to operate as a going concern. The going concern basis has been adopted on the basis of the continuing financial support from the ultimate shareholder.

Should the Target Group be unable to continue in business as a going concern, adjustments might have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might arise, and to reclassify non-current assets as current assets. These adjustments have not been reflected in the Financial Information.

(b) Basis of combination/consolidation

The Financial Information incorporates the financial statements of the Target and its subsidiaries made up to 31 December 2007.

(c) Subsidiaries

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

Business combinations (other than for combining entities under common control as described in note 1) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Target Group's accounting policies.

The net assets of the combining entities are combined using the existing book value from the controlling parties' perspective. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination. The combined income statements include the results of each of the combining entities from the date of incorporation or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

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

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

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

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

(d) Foreign currency translation

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items 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 and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Target Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the balance sheet date. Income and expenses have been converted into HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the currency translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into HK$ at the closing rates.

(e) Revenue recognition

Provided it is probable that the economic benefits will flow to the Target Group and the revenue and costs, if applicable, can be measured reliably, the revenue is recognised as follows:

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

(f) Intangible assets – "exploration and evaluation assets"

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

(g) Property, plant and equipment

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the assets to the working condition and location for its intended use.

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

Depreciation is provided to write off the cost of the asset less its residual values estimated at 10% of the cost over the estimated useful lives, using the straight-line method. The estimated useful lives used for this purpose are as follows:

Furniture and equipment	5 years
Motor Vehicle	10 years

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

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

(h) Impairment of assets

Property, plant and equipment, intangible assets and interests in subsidiaries are subject to impairment testing. All other assets are tested for impairment whenever there are indications that the asset may be impaired.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

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

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

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

(i) Financial assets

The Target Group's financial assets include cash and cash equivalents. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate re-evaluates this designation at every reporting date.

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

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

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

At each balance sheet date, financial assets are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in income statement of the period in which the impairment occurs.

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

(j) Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

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

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

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

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

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

(k) Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand which form an integral part of the Target Group's cash management.

(l) Share capital

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

(m) Financial liabilities

The Target Group's financial liabilities include other payables and accruals and amounts due to related parties.

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

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Other payables and accruals and amounts due to related parties

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

(n) Leases

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

Leases which do not transfer substantially all the risks and rewards of ownership to the Target Group are classified as operating leases.

Where the Target Group has the right to use the assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

(o) Retirement benefit costs and short term employee benefits

Defined contribution plan

Pursuant to the relevant regulations of the PRC government, the Target Group participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiary of the Target is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiary of the Target. The only obligation of the Target Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the income statement as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

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

(p) Related parties

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

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

– controls, is controlled by, or is under common control with, the Target Group;

– has an interest in the Target Group and the Target that gives it significant influence over the Target Group; or

– has joint control over the Target Group;

(ii) the party is an associate;

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

(iv) the party is a member of the key management personnel of the Target Group;

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

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

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

(q) Provisions, contingent liabilities and contingent assets

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

All provision are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Impairment of intangible assets – "exploration and evaluation assets"

The carrying value of exploration and evaluation assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The Target Group considers all facts and circumstances occurred which would suggest that the carrying amount of the exploration and evaluation assets may exceed its recoverable amount. As a result, no impairment loss is recognised in the Relevant Period. Management reassesses the impairment of intangible assets at the respective balance sheet dates. No amortisation has been charged during the Relevant Period as the intangible assets are not yet available for use.

Impairment of deposits and prepayments

Allowances for impairment of deposits and prepayments are determined by management of the Target Group based on the nature and aging of the deposits and prepayments and the current market conditions. It could change significantly as a result of changes in the financial position of the entity to whom the deposits and prepayments are paid. Management reassesses the impairment of these balances at the respective balance sheet dates.

5. REVENUE

The principal activities of the Target and the Subsidiary are investment holding. The principal activity of the CJV is the exploration of mine in the PRC at the permitted and authorised locations. Since the Target Group has not carried on any business during the Relevant Period, there was no revenue being recognised.

6. OTHER REVENUE

	HK$'000
Bank interest income	3

7. SEGMENT INFORMATION

No separate analysis of segment information by business or geographical segments is presented as the Target Group has not carried on any business during the Relevant Period.

8. PROFIT BEFORE INCOME TAX

	HK$'000
Profit before income tax is arrived at after charging :	
Auditors' remuneration	–
Depreciation of property, plant and equipment	4

9. INCOME TAX EXPENSE

No Hong Kong and PRC income tax has been provided as the Target Group did not derive any assessable profit arising in Hong Kong and PRC during the Relevant Period.

Reconciliation between income tax expense and accounting profit at applicable tax rate is as follows:

	HK$'000
Profit before income tax	8,793
Tax on profit before income tax, calculated at the applicable tax rates	1,537
Tax effect of non-taxable income	(1,706)
Tax effect of non-deductible expenses	10
Tax effect of unused tax losses not recognised	159
Income tax expense	–

According to the income tax rules and regulations of the PRC, the Target's subsidiary, the CJV, is eligible for certain tax holiday and concession. The tax holiday and concession normally are in the form of two years tax exemption from the first profitable year, followed by a 50% reduction of the applicable tax rate in the following three years. The CJV has not yet applied for the tax holiday and concession during the Relevant Period.

At 31 December 2007, the Target Group has unused tax losses of approximately HK$1,313,000 available to offset future profit. No deferred tax asset has been recognised due to the uncertainty of future taxable profit. The tax losses of the CJV can be carried forward for 5 years and the tax losses for the Subsidiary will not be expired under the current tax legislation.

As at 31 December 2007, no deferred tax liability has been provided as the Target Group did not have any significant temporary differences which give rise to a deferred tax liability.

10. PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE TARGET

Of the consolidated profit attributable to the equity holders of the Target of HK$8,797,000, a loss of HK$23,000 has been dealt with in the financial statements of the Target.

11. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTOR'S EMOLUMENTS)

	HK$'000
Salaries and allowances	19
Retirement benefits scheme contributions	2
	21

12. DIRECTOR'S REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) There were no director's emoluments and senior management's emoluments incurred during the Relevant Period. There were no arrangements under which a director waived or agreed to waive any remuneration during the Relevant Period.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Target Group included nil director during the Relevant Period. The Target Group did not have 5 paid individuals (including the director) during the period ended 31 December 2007. The emoluments payable to the remaining four highest paid individuals for the Relevant Period, which fell within the salary band of HK$Nil – HK$1 million, are as follows:

	HK$'000
Salaries and allowance	19
Contributions to pension scheme	2
	21

During the Relevant Period, there were no emoluments paid as an inducement to join or upon joining the Target Group or as compensation for loss of office.

13. PROPERTY, PLANT AND EQUIPMENT

The Target Group

	Furniture and equipment *HK$'000*	Motor vehicle *HK$'000*	Total *HK$'000*
Period ended 31 December 2007			
Opening net book value	–	–	–
Acquisition of subsidiary	120	127	247
Depreciation	(3)	(1)	(4)
Closing net book amount	117	126	243
At 31 December 2007			
Cost	120	127	247
Accumulated depreciation	(3)	(1)	(4)
Net book amount	117	126	243

14. INTANGIBLE ASSETS – "EXPLORATION AND EVALUATION ASSETS"

The Target Group	*HK$'000*
Exploration right	75
Technical feasibility studies	4,416
Exploratory drilling and sampling	7,452
	11,943

On 6 February 2005, 雲南省德宏傣族景頗族自治州潞西市三台山鄉大崗壩地區金礦普查 ("Luoxi City, Dehong Dai and Jingpo Autonomous Prefecture, Yunnan Province, the PRC") (for identification purpose only), authorised by the Ministry of Land and Resources of Yunnan Province, the PRC, granted the CJV, a subsidiary of the Target, the exploration permit for conducting geographical exploration over the gold mining sites in Luoxi City, Yunnan Province, the PRC, for the period up to 22 April 2010, which cover an exploration area of 113.96 square kilometres.

In the opinion of the director, the CJV will be able to renew the exploration rights with the relevant government authorities continuously.

The director has considered whether there were facts and circumstances that indicate the intangible assets may have been impaired in accordance with paragraph 18 of HKFRS 6. The list of indications in paragraph 20 of HKFRS 6 has been referred to. In the opinion of the director, at the balance sheet date, there were no indications that the intangible assets have been impaired.

15. INTERESTS IN SUBSIDIARIES

The Target	*HK$'000*
Unlisted investment, at cost	–

Particulars of the subsidiaries at 31 December 2007 are as follows:

Name	Place/country of incorporation/ establishment and kind of legal entity	Particulars of issued capital/ paid up capital	Percentage of issued/ registered capital held by the Target		Principal activities
			Directly	Indirectly	
China Mining Group Investment Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	100%	–	Investment holding
雲南西部礦業有限公司 (Yunnan Xibu Mining Company Limited (for identification purpose only))	The PRC, limited liability company	US$1,500,000	–	80%	Exploration of mine

On 10 November 2007, 金河資源有限公司 Golden River Resources Co. Ltd. ("Golden River") entered into a share transfer agreement with the Subsidiary regarding the transfer of 80% equity interest in the CJV from Golden River to the Subsidiary at nil consideration. Based on the agreement, the Subsidiary was obligated to further inject the unpaid registered capital of the CJV of US$1,510,000 (equivalent to HK$11,774,000) in cash. On 30 November 2007, the CJV became a subsidiary of the Subsidiary after the completion of the legal transfer procedures. As at 31 December 2007, the unpaid registered capital had not yet been injected by the Subsidiary which represented the capital commitment for the Subsidiary. The amount was paid on 8 January 2008 through the funding from a shareholder's loan and has been verified in a capital verification report dated 9 January 2008.

16. DEPOSITS AND PREPAYMENTS

The Target Group	*HK$'000*
Deposits	3
Prepayments	14
	17

17. CASH AND CASH EQUIVALENTS

The Target Group

As at 31 December 2007, included in cash and cash equivalents of the Target Group is approximately RMB1,000 of bank balances denominated in RMB and placed with banks in the PRC. RMB is not freely convertible into foreign currencies.

The bank balances earn interest at the floating rates based on daily bank deposit rates.

18. OTHER PAYABLES AND ACCRUALS

The Target Group	*HK$'000*
Other payables	10
Accruals	27
	37

The Target	*HK$'000*
Accruals	8
	8

19. AMOUNTS DUE TO A SHAREHOLDER/A SUBSIDIARY'S DIRECTOR

The amounts due to a shareholder, Mr. Leung Ngai Man, and a subsidiary's director are unsecured, interest free and repayable on demand.

20. SHARE CAPITAL

The Target

	Equivalent to *HK$'000*
Authorised:	
50,000 ordinary shares of US$1 each	
At date of incorporation	400
At 31 December 2007	400

	Equivalent to *HK$*
Issued and fully paid:	
1 ordinary share of US$1 each	
At date of incorporation	HK$8
At 31 December 2007	HK$8

21. ACCUMULATED LOSS

The balance of HK$23,000 represents the loss incurred by the Target for the Relevant Period.

22. CAPITAL COMMITMENTS

The Target Group and the Target did not have any significant capital commitments as at 31 December 2007.

23. OPERATING LEASE COMMITMENTS

The Target Group

As at 31 December 2007, the total future aggregate minimum lease payments under non-cancellable operating leases are payable by the Target Group as follows:

	HK$'000
Within one year	14
In the second to fifth years	50
	64

The Target Group leases several office and housing premises under operating leases. The lease runs for an initial period of half year to five years. None of the leases includes contingent rentals.

The Target

The Target did not have any significant operating lease commitments as at 31 December 2007.

24. RELATED PARTY TRANSACTIONS

Apart from the transactions with related parties disclosed elsewhere in this report, the Target Group and the Target had the following transactions with related parties during the Relevant Period:

On 19 December 2007, the CJV and 核工業209芒市金礦 ("Mangshi Gold Mine of Team 209"), a company controlled by 雲南省核工業209地質大隊 (Geological PRC Partner of the Nuclear Industry of Yunnan Province) (the "PRC Partner"), had entered into a Raw Gold Mine Supply Agreement. Under the agreement, the CJV agreed to purchase and Mangshi Gold Mine of Team 209 agreed to sell all the ore extracted from the mine at a price of RMB 12 per ton. The agreement is of a term expiring on 31 December 2010. The expected amount of ore to be supplied to the CJV under the agreement will be not less than 1,500,000 tones, not less than 2,250,000 tones and not less than 3,000,000 tones, for the period commencing from the date of the agreement and ending on 31 December 2008, and the two years ending 31 December 2009 and 31 December 2010, respectively, and include a buffer of 20% for the increase in the amount of ore to be supplied to the CJV.

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Business combinations

On 30 November 2007, the Subsidiary acquired 80% equity interest in the CJV, a gold mine exploration company. Further details of the transaction are included in note 15 to the Financial Information.

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

	HK$'000
Total purchase consideration	–
Fair value of net assets acquired	(9,745)
Negative goodwill (excess over the cost of a business combination recognised in the income statement)	9,745

The assets and liabilities arising from the acquisition are as follows:

	Fair value	**Acquiree's carrying amount**
	HK$'000	*HK$'000*
Property, plant and equipment	247	247
Intangible assets – "exploration and evaluation assets"	11,943	11,943
Deposits, prepayment and other receivables	1	1
Cash and cash equivalents	1	1
Other payables and accruals	(11)	(11)
Net assets as at 30 November 2007	12,181	12,181
Minority interest (20% of the CJV)	(2,436)	
Net identifiable assets to be acquired	9,745	
Cash and cash equivalents in the CJV acquired		1
Cash inflow on acquisition		1

Since its acquisition the CJV did not contribute any revenue to the Target Group's turnover and loss of HK$20,000 was contributed to the consolidated profit for the period ended 31 December 2007.

Had the combination taken place at the beginning of the period, the revenue and the profit of the Target Group for the period ended 31 December 2007 would have been nil and HK$8,658,000 respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Target Group that actually would have been achieved had the acquisition been completed at the beginning of the period, nor are they intended to be a projection of future results.

26. CONTINGENT LIABILITIES

The Target Group and the Target did not have any significant contingent liabilities as at 31 December 2007.

27. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(a) Interest rate risk

The Target Group's operating cash flows are substantially independent of changes in market interest rates and the Target Group has no significant interest bearing assets and liabilities. The Target Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(b) Foreign currency risk

The Target Group's exposure to currency exchange rates is minimal as the group companies usually hold most of their financial assets, liabilities in their respective functional currencies. The management of the Target Group would closely monitor the risk to ensure the risk is kept to a minimum.

(c) Credit risk

All of the Target Group's cash and cash equivalents are deposited with reputable banks, the credit risk is considered negligible.

No financial assets carry a significant exposure to credit risk. The Target Group continuously monitors defaults of other counterparties and incorporates this information into its credit risk controls.

None of the Target Group's financial assets are secured by collateral or other credit enhancements.

(d) Liquidity risk

The Target Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. Although the Target Group had net current liabilities of HK$957,000 as at 31 December 2007, the Target Group can maintain its liquidity requirements by obtaining continuing financial support from the ultimate shareholder of the Target Group. In the opinion of director, the Target Group's exposure to liquidity risk is limited.

The following table details the remaining contractual maturities at the balance sheet date of the Target Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rate or, if floating, based on rates current at the balance sheet date) and the earliest date the Target Group can be required to pay:

	Carrying amount	**Total contractual undiscounted cash flow**	**Within one year or on demand**
	HK$'000	*HK$'000*	*HK$'000*
The Target Group			
Other payables and accruals	37	(37)	(37)
Amount due to a shareholder	950	(950)	(950)
Amount due to a subsidiary's director	13	(13)	(13)
	1,000	(1,000)	(1,000)

	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand
	HK$'000	*HK$'000*	*HK$'000*
The Target			
Other payables and accruals	8	(8)	(8)
Amount due to a shareholder	15	(15)	(15)
	23	(23)	(23)

(e) Fair values

As at 31 December 2007, the fair values of the Target Group's and the Target's current financial assets and liabilities are not materially different from their carrying amount because of the immediate or short term maturity of these financial instruments.

(f) Summary of financial assets and liabilities by category

The carrying amounts of the Target and the Target Group's financial assets and liabilities as recognised at the balance sheet date of the Relevant Period under review may also be categorised as follows. See notes 3(i) and 3(m) for explanations about how the categorisation of financial instruments affects their subsequent measurement.

(i) The Target Group

	As at 31 December 2007
	HK$'000
Financial assets	
Current assets	
Cash and cash equivalents	26
Financial liabilities	
Current liabilities	
Financial liabilities measured at amortised cost	
– Other payables and accruals	37
– Amount due to a shareholder	950
– Amount due to a subsidiary's director	13
	1,000

(ii) The Target

	As at 31 December 2007
	HK$'000
Financial liabilities	
Current liabilities	
Financial liabilities measured at amortised cost	
– Other payables and accruals	8
– Amount due to a shareholder	15
	23

28. CAPITAL MANAGEMENT

The Target Group's objectives when managing capital are:

(a) To safeguard the Target Group's ability to continue as a going concern, so that it continues to provide returns and benefits for stakeholders;

(b) To support the Target Group's stability and growth; and

(c) To provide capital for the purpose of strengthening the Target Group's risk management capability.

The Target Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Target Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Target Group currently does not adopt any formal dividend policy. Management regards total equity of HK$11,229,000 as capital, for capital management purpose.

29. POST BALANCE SHEET EVENTS

On 8 January 2008, paid up capital of US$1,510,000 was paid by the Subsidiary to the CJV and the amount has been verified by 雲南光大會計師事務所有限公司 (Yunnan Guangda Certified Public Accountants Co., Ltd.) (for identification purpose only) in a capital verification report dated 9 January 2008 (雲光會計驗字(2008)第1號) (Yun Guang Yan Zi (2008) Number 1) (for identification purpose only).

Save as disclosed above and elsewhere in this report, no other significant event has taken place subsequent to 31 December 2007.

30. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Group or any member of the Target Group were prepared in respect of any period subsequent to 31 December 2007.

Yours faithfully,

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

The following is the text of a report on the Subsidiary and the CJV which is equivalent to "The Subsidiary Group" as defined below, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, Grant Thornton.

Grant Thornton
均富

Member of Grant Thornton International Ltd

13 May 2008

The Directors
China Metal Resources Holdings Limited
Unit 1006, 10th Floor
Tower One Lippo Centre
No. 89 Queensway
Hong Kong

Dear Sirs,

We set out below our report on the financial information of China Mining Group Investment Limited (the "Subsidiary") and its subsidiary (collectively referred to as the "Subsidiary Group") in section I and II below including the company balance sheet of the Subsidiary as at 31 December 2007, the consolidated balance sheet of the Subsidiary Group as at 31 December 2007, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the period from 27 April 2007 (being date of incorporation of the Subsidiary) to 31 December 2007 (the "Relevant Period") and notes thereto (the "Financial Information") prepared for inclusion in the circular of China Metal Resources Holdings Limited (the "Company") dated 13 May 2008 (the "Circular") in connection with the acquisition by the Company of interests in China Nonferrous Metals Resources Investment Limited, the Subsidiary and 雲南西部礦業有限公司 Yunnan Xibu Mining Company Limited (for identification purpose only) (the "CJV") (the "Acquisition") which was announced by the Company on 23 January 2008.

The Subsidiary was incorporated in Hong Kong with limited liability on 27 April 2007 with an issued and paid-up capital of Hong Kong Dollar ("HK$") 1. The address of the Subsidiary's registered office and its principal place of business is Unit A, 20/F., Seabright Plaza, 9-23 Shell Street, North Point, Hong Kong. As at the date of this report, the Subsidiary is wholly owned by China Nonferrous Metals Resources Investment Limited (the "Target"). During the Relevant Period, the principal activity of the Subsidiary is investment holding. As at the date of this report, the Subsidiary has the following subsidiary:

Name of subsidiary	Registered capital	Paid-up capital	Place of establishment	Principal place of operation	Proportion of nominal value of paid-up capital directly held by the Subsidiary	Nature of business
雲南西部礦業有限公司 (Yunnan Xibu Mining Company Limited)	US$3,010,000	US$3,010,000	The People's Republic of China (the "PRC")	The PRC	80%	Exploration of mine

All the companies within the Subsidiary Group have adopted 31 December as their financial year-end date.

No audit has been performed on the management accounts of the Subsidiary as it was newly incorporated on 27 April 2007.

The statutory financial statements of the CJV were prepared in accordance with the relevant accounting rules and regulations applicable to companies established in the PRC. The CJV has adopted 31 December as its financial year-end date. The statutory financial statements for the year ended 31 December 2007 were audited by 雲南光大會計師事務所有限公司 (Yunnan Guangda Certified Public Accountants Co., Ltd.) (for identification purpose only), a firm of certified public accountants registered in the PRC.

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

The Financial Information and the notes thereto for the Relevant Period as set out in this report has been prepared by the director of the Subsidiary based on the Underlying Financial Statements and in accordance with HKFRSs. For the purpose of this report, we have examined the Financial Information of the Subsidiary Group and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The sole director of the Subsidiary is responsible for the preparation of the Underlying Financial Statements and the Financial Information which gives a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

Opinion

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the Subsidiary Group and the Subsidiary as at 31 December 2007 and of the consolidated results and consolidated cash flows of the Subsidiary Group for the Relevant Period.

I. FINANCIAL INFORMATION

Consolidated Income Statement
For the period from 27 April 2007 (date of incorporation) to 31 December 2007

	Notes	*HK$'000*
Revenue	*5*	–
Other revenue	*6*	3
Negative Goodwill	*25*	9,745
Administrative expenses		(932)
Profit before income tax	*8*	8,816
Income tax expense	*9*	–
Profit for the period		8,816
Attributable to:		
Equity holders of the Subsidiary	*10*	8,820
Minority interests		(4)
Profit for the period		8,816

Consolidated Balance Sheet
As at 31 December 2007

	Notes	*HK$'000*
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	*13*	243
Intangible assets – "exploration and evaluation assets"	*14*	11,943
		12,186
Current assets		
Deposits and prepayments	*16*	17
Cash and cash equivalents	*17*	26
		43
Current liabilities		
Other payables and accruals	*18*	29
Amount due to a shareholder	*19*	935
Amount due to a subsidiary's director	*19*	13
		977
Net current liabilities		(934)
Total assets less current liabilities/ Net assets		11,252
EQUITY		
Equity attributable to equity holders of the Subsidiary		
Share capital	*20*	–
Retained profits		8,820
		8,820
Minority interests		2,432
Total equity		11,252

Balance Sheet
As at 31 December 2007

	Notes	*HK$'000*
ASSETS AND LIABILITIES		
Non-current assets		
Interest in a subsidiary	*15*	–
Current assets		
Cash and cash equivalents	*17*	25
Current liabilities		
Amount due to a shareholder	*19*	933
Net current liabilities		(908)
Total assets less current liabilities/ Net liabilities		(908)
EQUITY		
Share capital	*20*	–
Accumulated loss	*21*	(908)
Total equity		(908)

Consolidated Cash Flow Statement

For the period from 27 April 2007 (date of incorporation) to 31 December 2007

	Notes	*HK$'000*
Cash flows from operating activities		
Profit before income tax		8,816
Adjustments for:		
Interest income		(3)
Depreciation of property, plant and equipment		4
Negative goodwill		(9,745)
Operating loss before working capital changes		(928)
Increase in deposits and prepayments		(16)
Increase in other payables and accruals		18
Increase in amount due to a subsidiary's director		13
Net cash used in operating activities		(913)
Cash flows from investing activities		
Acquisition of a subsidiary (net of cash and cash equivalent acquired)	*25*	1
Interest received		3
Net cash generated from investing activities		4
Cash flows from financing activities		
Advance of loan from a shareholder		935
Net cash generated from financing activities		935
Net increase in cash and cash equivalents		26
Cash and cash equivalents as at 27 April 2007		–
Cash and cash equivalents as at 31 December 2007	*17*	26

Consolidated Statement of Changes in Equity

For the period from 27 April 2007 (date of incorporation) to 31 December 2007

	Equity attributable to the equity holders of the Subsidiary				
	Share capital	**Retained profits**	**Total**	**Minority interests**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 27 April 2007 (date of incorporation)	–	–	–	–	–
Acquisition of a subsidiary	–	–	–	2,436	2,436
Profit for the period (Total recognised income and expense for the period)	–	8,820	8,820	(4)	8,816
At 31 December 2007	–	8,820	8,820	2,432	11,252

II. NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION

The Financial Information is presented in HK$, which is also the functional currency of the Subsidiary.

The Financial Information set out in this report has been prepared in accordance with HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the HKICPA and the Hong Kong Companies Ordinance, which have been consistently applied throughout the Relevant Period.

The Financial Information also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM Listing Rules") of The Stock Exchange of Hong Kong Limited ("Stock Exchange").

2. ADOPTION OF NEW AND AMENDED HKFRSs

The Subsidiary Group has adopted all the new and amended HKFRSs which are effective for the accounting periods beginning on 27 April 2007, issued by the HKICPA and relevant to the Subsidiary Group in the preparation of the Financial Information throughout the Relevant Period.

The Subsidiary Group has not early adopted the following standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKFRS 8	Operating Segments [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
Amendment to HKFRS 2	Share-based Payment-Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[4]
HK(IFRIC) – Int 12	Service Concession Arrangements [2]
HK(IFRIC) – Int 13	Customer Loyalty Programmes [3]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and Their Interaction [2]

Note

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 January 2008
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 July 2009

Among these new standards and interpretations, HKAS 1 (Revised) is expected to be relevant to the Subsidiary Group's Financial Information.

Amendment to HKAS 1 Presentation of Financial Statements

This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Subsidiary Group but will give rise to additional disclosures. Management is currently assessing the detailed impact of this amendment on the Subsidiary Group's Financial Information.

The director of the Subsidiary is currently assessing the impact of the other new standards and interpretations but are not yet in a position to state whether they would have material financial impact on the Subsidiary Group's Financial Information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Financial Information has been prepared in accordance with the significant accounting policies set out below. The Financial Information has been prepared on the historical cost convention. The measurement bases are fully described in the accounting policies below.

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

In preparing the Financial Information, the director of the Subsidiary has given consideration to the future liquidity of the Subsidiary Group in light of its net current liabilities of approximately HK$934,000 as at 31 December 2007. Notwithstanding this, the Financial Information has been prepared on a going concern basis on the assumption that the Subsidiary Group and the Subsidiary will continue to operate as a going concern. The going concern basis has been adopted on the basis of the continuing financial support from the ultimate shareholder.

Should the Subsidiary Group be unable to continue in business as a going concern, adjustments might have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might arise, and to reclassify non-current assets as current assets. These adjustments have not been reflected in the Financial Information.

(b) Basis of consolidation

The Financial Information incorporates the financial statements of the Subsidiary and its subsidiary made up to 31 December 2007.

(c) Subsidiaries

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

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

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

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

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

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

(d) Foreign currency translation

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items 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 and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Subsidiary Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the balance sheet date. Income and expenses have been converted into HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the currency translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into HK$ at the closing rates.

(e) Revenue recognition

Provided it is probable that the economic benefits will flow to the Subsidiary Group and the revenue and costs, if applicable, can be measured reliably, the revenue is recognised as follows:

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

(f) Intangible assets – "exploration and evaluation assets"

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

(g) Property, plant and equipment

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

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

Depreciation is provided to write off the cost of the asset less its residual values estimated at 10% of the cost over the estimated useful lives, using the straight-line method. The estimated useful lives used for this purpose are as follows:

Furniture and equipment	5 years
Motor vehicle	10 years

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

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

(h) Impairment of assets

Property, plant and equipment, intangible assets and interest in a subsidiary are subject to impairment testing. All other assets are tested for impairment whenever there are indications that the asset may be impaired.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

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

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

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

(i) Financial assets

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

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

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

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

At each balance sheet date, financial assets are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in income statement of the period in which the impairment occurs.

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

(j) Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

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

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

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

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

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

(k) Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand which form an integral part of the Subsidiary Group's cash management.

(l) Share capital

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

(m) Financial liabilities

The Subsidiary Group's financial liabilities include other payables and accruals and amounts due to related parties.

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

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Other payables and accruals and amounts due to related parties

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

(n) Leases

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

Leases which do not transfer substantially all the risks and rewards of ownership to the Subsidiary Group are classified as operating leases.

Where the Subsidiary Group has the right to use the assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

(o) Retirement benefit costs and short term employee benefits

Defined contribution plan

Pursuant to the relevant regulations of the PRC government, the Subsidiary Group participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiary of the Subsidiary is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiary of the Subsidiary. The only obligation of the Subsidiary Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the income statement as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

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

(p) Related parties

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

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

– controls, is controlled by or is under common control with, the Subsidiary Group

– has an interest in the Subsidiary Group and the Subsidiary that gives it significant influence over the Subsidiary Group; or

– has joint control over the Subsidiary Group;

(ii) the party is an associate;

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

(iv) the party is a member of the key management personnel of the Subsidiary Group;

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

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

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

(q) Provisions, contingent liabilities and contingent assets

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

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Impairment of intangible assets – "exploration and evaluation assets"

The carrying value of exploration and evaluation assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The Subsidiary Group considers all facts and circumstances occurred which would suggest that the carrying amount of the exploration and evaluation assets may exceed its recoverable amount. As a result, no impairment loss is recognised in the Relevant Period. Management reassesses the impairment of intangible assets at the respective balance sheet dates. No amortisation has been charged during the Relevant Period as the intangible assets are not yet available for use.

Impairment of deposits and prepayments

Allowances for impairment of deposits and prepayments are determined by management of the Subsidiary Group based on the nature and aging of the deposits and prepayments and the current market conditions. It could change significantly as a result of changes in the financial position of the entity to whom the deposits and prepayments are paid. Management reassesses the impairment of receivables at the respective balances sheet dates.

5. REVENUE

The principal activity of the Subsidiary is investment holding and the principal activity of the CJV is the exploration of mine in the PRC at the permitted and authorised locations. Since the Subsidiary Group has not carried on any business during the Relevant Period, there was no revenue recognised.

6. OTHER REVENUE

	HK$'000
Bank interest income	3

7. SEGMENT INFORMATION

No separate analysis of segment information by business or geographical segments is presented as the Subsidiary Group has not carried on any business during the Relevant Period.

8. PROFIT BEFORE INCOME TAX

	HK$'000
Profit before income tax is arrived at after charging:	
Auditors' remuneration	–
Depreciation of property, plant and equipment	4

9. INCOME TAX EXPENSE

No Hong Kong and PRC income tax has been provided as the Subsidiary Group did not derive any assessable profit arising in Hong Kong and PRC during the Relevant Period.

Reconciliation between income tax expense and accounting profit at applicable tax rate is as follows:

	HK$'000
Profit before income tax	8,816
Tax on profit before income tax, calculated at the applicable tax rates	1,540
Tax effect of non-taxable income	(1,706)
Tax effect of non-deductible expenses	7
Tax effect of unused tax losses not recognisd	159
Income tax expense	–

According to the income tax rules and regulations of the PRC, the Subsidiary's subsidiary, the CJV, is eligible for certain tax holiday and concession. The tax holiday and concession normally are in the form of two years tax exemption from the first profitable year, followed by a 50% reduction of the applicable tax rate in the following three years. The CJV had not yet applied for the tax holiday and concession during the Relevant Period.

At 31 December 2007, the Subsidiary Group has unused tax losses of approximately HK$1,313,000 available to offset future profit. No deferred tax asset has been recognised due to the uncertainty of future taxable profit. The tax losses of the CJV can be carried forward for 5 years and the tax losses for the Subsidiary will not be expired under the current tax legislation.

As at 31 December 2007, no deferred tax liability has been provided as the Subsidiary Group did not have any significant temporary differences which give rise to a deferred tax liability.

10. PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE SUBSIDIARY

Of the consolidated profit attributable to the equity holders of the Subsidiary of HK$8,820,000, a loss of HK$908,000 has been dealt with in the financial statements of the Subsidiary.

11. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTOR'S EMOLUMENTS)

	HK$'000
Salaries and allowances	19
Retirement benefits scheme contributions	2
	21

12. DIRECTOR'S REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) There were no director's emoluments and senior management's emoluments incurred during the Relevant Period. There were no arrangements under which a director waived or agreed to waive any remuneration during the Relevant Period.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Subsidiary Group included nil director during the Relevant Period. The Subsidiary Group did not have 5 paid individuals (including the director) during the Relevant Period. The emoluments payable to the remaining four highest paid individuals for the Relevant Period, which fell within the salary band of HK$Nil – HK$1 million, are as follows:

	HK$'000
Salaries and allowance	19
Contributions to pension scheme	2
	21

During the Relevant Period, there were no emoluments paid as an inducement to join or upon joining the Subsidiary Group or as compensation for loss of office.

13. PROPERTY, PLANT AND EQUIPMENT

The Subsidiary Group

	Furniture and equipment *HK$'000*	Motor vehicle *HK$'000*	Total *HK$'000*
Period ended 31 December 2007			
Opening net book value	–	–	–
Acquisition of subsidiary	120	127	247
Depreciation	(3)	(1)	(4)
Closing net book amount	117	126	243
At 31 December 2007			
Cost	120	127	247
Accumulated depreciation	(3)	(1)	(4)
Net book amount	117	126	243

14. INTANGIBLE ASSETS – "EXPLORATION AND EVALUATION ASSETS"

The Subsidiary Group

	HK$'000
Exploration right	75
Technical feasibility studies	4,416
Exploratory drilling and sampling	7,452
	11,943

On 6 February 2005, 雲南省德宏傣族景頗族自治州潞西市三台山鄉大崗壩地區金礦普查 ("Luoxi City, Dehong Dai and Jingpo Autonomous Prefecture, Yunnan Province, the PRC") (for identification purpose only), authorised by the Ministry of Land and Resources of Yunnan Province, the PRC, granted the CJV, a subsidiary of the Subsidiary, the exploration permit for conducting geographical exploration over the gold mining sites in Luoxi City, Yunnan Province, the PRC, for the period up to 22 April 2010, which cover an exploration area of 113.96 square kilometres.

In the opinion of the director, the CJV will be able to renew the exploration rights with the relevant government authorities continuously.

The director has considered whether there were facts and circumstances that indicate the intangible assets may have been impaired in accordance with paragraph 18 of HKFRS 6. The list of indications in paragraph 20 of HKFRS 6 has been referred to. In the opinion of the director, at the balance sheet date, there were no indications that the intangible assets have been impaired.

15. INTEREST IN A SUBSIDIARY

The Subsidiary

	HK$'000
Unlisted investment, at cost	–

Particulars of the subsidiary which is directly held by the Subsidiary, at 31 December 2007 are as follows:

Name	Place of establishment and kind of legal entity	Registered capital	Paid-up capital	Percentage of registered capital directly held by the Subsidiary	Principal activities
雲南西部礦業有限公司 Yunnan Xibu Mining Company Limited	The PRC, limited liability company	US$3,010,000	US$1,500,000	80%	Exploration of mine

On 10 November 2007, 金河資源有限公司 Golden River Resources Co. Ltd. ("Golden River") entered into a share transfer agreement with the Subsidiary regarding the transfer of 80% equity interest in the CJV from Golden River to the Subsidiary at nil consideration. Based on the agreement, the Subsidiary was obligated to further inject the unpaid registered capital of the CJV of US$1,510,000 (equivalent to HK$11,774,000) in cash. On 30 November 2007, the CJV became a subsidiary of the Subsidiary after the completion of the legal transfer procedures. As at 31 December 2007, the unpaid registered capital had not yet been injected by the Subsidiary totalling HK$11,774,000 was disclosed as capital commitment under note 22. The amount was paid on 8 January 2008 through funding from a shareholder's loan and has been verified in a capital verification report dated 9 January 2008.

16. DEPOSITS AND PREPAYMENTS

The Subsidiary Group

	HK$'000
Deposits	3
Prepayments	14
	17

17. CASH AND CASH EQUIVALENTS

The Subsidiary Group

As at 31 December 2007, included in cash and cash equivalents of the Subsidiary Group is approximately RMB1,000 of bank balances denominated in RMB and placed with banks in the PRC. RMB is not freely convertible into foreign currencies.

The Subsidiary Group and the Subsidiary

The bank balances earn interest at the floating rates based on daily bank deposit rates.

18. OTHER PAYABLES AND ACCRUALS

The Subsidiary Group

	HK$'000
Other payables	10
Accruals	19
	29

19. AMOUNTS DUE TO A SHAREHOLDER/A SUBSIDIARY'S DIRECTOR

The amounts due to a shareholder, Mr. Leung Ngai Man, and a subsidiary's director are unsecured, interest free and repayable on demand.

20. SHARE CAPITAL

The Subsidiary

	HK$'000
Authorised:	
10,000 ordinary shares of HK$1 each	
At date of incorporation	10
At 31 December 2007	10
Issued and fully paid:	
1 ordinary share of HK$1 each	
At date of incorporation	HK$1
At 31 December 2007	HK$1

21. ACCUMULATED LOSS

The balance of HK$908,000 represents the loss incurred by the Subsidiary for the Relevant Period.

22. CAPITAL COMMITMENTS

The Subsidiary Group

The Subsidiary Group did not have any significant capital commitments as at 31 December 2007.

The Subsidiary

As disclosed in note 15, on 10 November 2007, Golden River entered into a share transfer agreement with the Subsidiary regarding the transfer of 80% equity interest in the CJV from Golden River to the Subsidiary at nil consideration. Based on the agreement, the Subsidiary was obligated to further inject the unpaid registered capital of the CJV of US$1,510,000 (equivalent to HK$11,774,000). On 30 November 2007, the CJV became a subsidiary of the Subsidiary after the completion of the legal transfer procedures. As at 31 December 2007, the unpaid registered capital had not yet been injected by the Subsidiary. The amount was paid on 8 January 2008 through funding from a shareholder's loan and has been verified in a capital verification report dated 9 January 2008.

23. OPERATING LEASE COMMITMENTS

The Subsidiary Group

At 31 December 2007, the total future aggregate minimum lease payments under non-cancellable operating leases are payable by the Subsidiary Group as follows:

	HK$'000
Within one year	14
In the second to fifth years	50
	64

The Subsidiary Group leases several office and housing premises under operating leases. The lease runs for an initial period of half year to five years. None of the leases includes contingent rentals.

The Subsidiary

The Subsidiary did not have any significant operating lease commitments as at 31 December 2007.

24. RELATED PARTY TRANSACTIONS

Apart from the transactions with related parties disclosed elsewhere in this report, the Subsidiary Group and the Subsidiary had the following transactions with related parties during the Relevant Period:

On 19 December 2007, the CJV and 核工業209芒市金礦 ("Mangshi Gold Mine of Team 209"), a company controlled by 雲南省核工業209地質大隊 (Geological PRC Partner of the Nuclear Industry of Yunnan Province) (the "PRC Partner"), had entered into a Raw Gold Mine Supply Agreement. Under the agreement, the CJV agreed to purchase and Mangshi Gold Mine of Team 209 agreed to sell all the ore extracted from the mine at a price of RMB12 per ton. The agreement is of a term expiring on 31 December 2010. The expected amount of ore to be supplied to the CJV under the agreement will be not less than 1,500,000 tones, not less than 2,250,000 tones and not less than 3,000,000 tones, for the period commencing from the date of the agreement and ending on 31 December 2008, and the two years ending 31 December 2009 and 31 December 2010, respectively, and include a buffer of 20% for the increase in the amount of ore to be supplied to the CJV.

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Business combinations

On 30 November 2007, the Subsidiary acquired 80% equity interest in the CJV, a gold mine exploration company. Further details of the transaction are included in note 15 to the Financial Information.

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

	HK$'000
Total purchase consideration	–
Fair value of net assets acquired	(9,745)
Negative goodwill (excess over the cost of a business combination recognised in the income statement)	9,745

The assets and liabilities arising from the acquisition are as follows:

	Fair value	**Acquiree's carrying amount**
	HK$'000	*HK$'000*
Property, plant and equipment	247	247
Intangible assets – "exploration and evaluation assets"	11,943	11,943
Deposits, prepayment and other receivables	1	1
Cash and cash equivalents	1	1
Other payables and accruals	(11)	(11)
Net assets as at 30 November 2007	12,181	12,181
Minority interest (20% of the CJV)	(2,436)	
Net identifiable assets to be acquired	9,745	
Cash and cash equivalents in the CJV acquired		1
Cash inflow on acquisition		1

Since its acquisition, the CJV did not contribute any revenue to the Subsidiary Group's turnover and loss of HK$20,000 was contributed to the consolidated profit for the period ended 31 December 2007.

Had the combination taken place at the beginning of the period, the revenue and the profit of the Subsidiary Group for the period ended 31 December 2007 would have been nil and HK$8,698,000 respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Subsidiary Group that actually would have been achieved had the acquisition been completed at the beginning of the period, nor are they intended to be a projection of future results.

26. CONTINGENT LIABILITIES

The Subsidiary Group and the Subsidiary did not have any significant contingent liabilities as at 31 December 2007.

27. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(a) Interest rate risk

The Subsidiary Group's operating cash flows are substantially independent of changes in market interest rates as the Subsidiary Group has no significant interest bearing assets and liabilities.

(b) Foreign currency risk

The Subsidiary Group's exposure to currency exchange rates is minimal as the group companies usually hold most of their financial assets/liabilities in their respective functional currencies. The management of the Subsidiary Group would closely monitor the risk to ensure the risk is kept to a minimum.

(c) Credit risk

All of the Subsidiary Group's cash and cash equivalents are deposited with reputable banks, the credit risk is considered negligible.

No financial assets carry a significant exposure to credit risk. The Subsidiary Group continuously monitors defaults of other counterparties and incorporates this information into its credit risk controls.

None of the Subsidiary Group's financial assets are secured by collateral or other credit enhancements.

(d) Liquidity risk

The Subsidiary Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. Although the Subsidiary Group had net current liabilities of HK$934,000 as at 31 December 2007, the Subsidiary Group can maintain its liquidity requirements by obtaining continuing financial support from the ultimate shareholder of the Subsidiary Group. In the opinion of director, the Subsidiary Group's exposure to liquidity risk is limited.

The following table details the remaining contractual maturities at the balance sheet date of the Subsidiary Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rate or, if floating, based on rates current at the balance sheet date) and the earliest date the Subsidiary Group can be required to pay:

	Carrying amount	**Total contractual undiscounted cash flow**	**Within one year or on demand**
	HK$'000	*HK$'000*	*HK$'000*
The Subsidiary Group			
Other payables and accruals	29	(29)	(29)
Amount due to a shareholder	935	(935)	(935)
Amount due to a subsidiary's director	13	(13)	(13)
	977	(977)	(977)

	Carrying amount	**Total contractual undiscounted cash flow**	**Within one year or on demand**
	HK$'000	*HK$'000*	*HK$'000*
The Subsidiary			
Amount due to a shareholder	933	(933)	(933)

(e) Fair values

As at 31 December 2007, the fair values of the Subsidiary Group's and the Subsidiary's current financial assets and liabilities are not materially different from their carrying amount because of the immediate or short term maturity of these financial instruments.

(f) Summary of financial assets and liabilities by category

The carrying amounts of the Subsidiary and the Subsidiary Group's financial assets and liabilities as recognised at the balance sheet date of the Relevant Period under review may also be categorised as follows. See notes 3(i) and 3(m) for explanations about how the categorisation of financial instruments affects their subsequent measurement.

(i) The Subsidiary Group

	As at 31 December 2007
	HK$'000
Financial assets	
Current assets	
Cash and cash equivalents	26
Financial liabilities	
Current liabilities	
Financial liabilities measured at amortised cost	
– Other payables and accruals	29
– Amount due to a shareholder	935
– Amount due to a subsidiary's director	13
	977

(ii) The Subsidiary

	As at 31 December 2007
	HK$'000
Financial assets	
Current assets	
Cash and cash equivalents	25
Financial liabilities	
Current liabilities	
Financial liabilities measured at amortised cost	
– Amount due to a shareholder	933

28. CAPITAL MANAGEMENT

The Subsidiary Group's objectives when managing capital are:

(a) To safeguard the Subsidiary Group's ability to continue as a going concern, so that it continues to provide returns and benefits for stakeholders;

(b) To support the Subsidiary Group's stability and growth; and

(c) To provide capital for the purpose of strengthening the Subsidiary Group's risk management capability.

The Subsidiary Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Subsidiary Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Subsidiary Group currently does not adopt any formal dividend policy. Management regards total equity of HK$11,252,000 as capital, for capital management purpose.

29. POST BALANCE SHEET EVENTS

On 8 January 2008, paid up capital of US$1,510,000 was paid by the Subsidiary to the CJV and the amount has been verified by 雲南光大會計師事務所有限公司 (Yunnan Guangda Certified Public Accountants Co., Ltd.) (for identification purpose only) in a capital verification report dated 9 January 2008 (雲光會計驗字(2008)第1號) (Yun Guang Yan Zi (2008) Number 1) (for identification purpose only).

Save as disclosed above and elsewhere in this report, no other significant event has taken place subsequent to 31 December 2007.

30. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Subsidiary Group or any member of the Subsidiary Group were prepared in respect of any period subsequent to 31 December 2007.

Yours faithfully,

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

The following is the text of a report on the CJV, prepared for inclusion in this circular, received from the independent reporting accountants, Grant Thornton.

Grant Thornton
均富

Member of Grant Thornton International Ltd

13 May 2008

The Directors
China Metal Resources Holdings Limited
Unit 1006, 10th Floor
Tower One Lippo Centre
No. 89 Queensway
Hong Kong

Dear Sirs,

We set out below our report on the financial information of 雲南西部礦業有限公司 Yunnan Xibu Mining Company Limited (for identification purpose only) (the "CJV") in Section I and II below, including the balance sheets of the CJV as at 31 December 2005, 2006 and 2007, income statements, cash flow statements and statements of changes in equity for years ended 31 December 2005, 2006 and 2007 (the "Relevant Periods") and notes thereto (the "Financial Information") prepared for inclusion in the circular of China Metal Resources Holdings Limited (the "Company") dated 13 May 2008 (the "Circular") in connection with the acquisition by the Company of interests in China Nonferrous Metals Resources Investment Limited, China Mining Group Investment Limited and the CJV (the "Acquisition") which was announced by the Company on 23 January 2008.

The CJV was established in the People's Republic of China (the "PRC") with limited liability on 14 May 2004 with a registered capital of United States Dollars ("US$") 3,010,000 (equivalent to Renminbi ("RMB") 24,913,000). The address of the CJV's registered office is Room 314, No.182, Dong Feng Xi Road, Kunming, the PRC, and its principal place of business is Luoxi City, Dehong Dai and Jingpo Autonomous Prefecture, Yunnan Province, the PRC. As at the date of this report, the CJV is 80% beneficially owned by China Mining Group Investment Limited (the "Subsidiary"), a company incorporated in Hong Kong. During the Relevant Periods, the CJV was principally engaged in the exploration of mines in the PRC at the permitted and authorised locations in Mangshi City, Yunnan Province. During the Relevant Periods, the CJV owned a certificate of the exploratory rights which was transferred from 雲南省核工業209地質大隊 (Geological PRC Partner of the Nuclear Industry of Yunnan Province) (the "PRC Partner") (for identification purpose only), a minority equity holder of the CJV on 6 February 2005. The CJV was appointed as the sole investor and the developer of certain exploration areas located at or near Mangshi City, Yunnan Province, the PRC (the "Gold Mining Sites"). As at the date of this report, the CJV has no subsidiary.

The statutory financial statements of the CJV were prepared in accordance with the relevant accounting rules and regulations applicable to companies established in the PRC. The CJV has adopted 31 December as its financial year-end date. The statutory financial statements for the years ended 31 December 2005, 2006 and 2007 were audited by 雲南光大會計師事務所有限公司 (Yunnan Guangda Certified Public Accountants Co., Ltd.) (for identification purpose only) ("Yunnan Guangda CPA"), a firm of certified public accountants registered in the PRC.

For the purpose of this report, the directors of the CJV have prepared the financial statements (the "Underlying Financial Statements") of the CJV for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). We have, for the purpose of this report, carried out appropriate audit procedures in respect of the Underlying Financial Statements of the CJV for the Relevant Periods, in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information and the notes thereto for the Relevant Periods as set out in this report has been prepared by the directors of the CJV based on the Underlying Financial Statements and in accordance with HKFRSs. For the purpose of this report, we have examined the Financial Information of the CJV and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The directors of the CJV are responsible for the preparation of the Underlying Financial Statements and the Financial Information which gives a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

Opinion

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the CJV as at 31 December 2005, 2006 and 2007 and of the results and cash flows of the CJV for each of the Relevant Periods.

I. FINANCIAL INFORMATION

Income Statements

		Year ended 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*5*	–	–	–
Other revenue	*6*	16	5	1
Administrative expenses		(454)	(569)	(198)
Loss before income tax	*8*	(438)	(564)	(197)
Income tax expense	*9*	–	–	–
Loss for the year		(438)	(564)	(197)

Balance Sheets

		As at 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*12*	303	281	232
Intangible assets – "exploration and evaluation assets"	*13*	2,336	11,271	11,374
Long term prepayment	*14*	230	–	–
		2,869	11,552	11,606
Current assets				
Deposits, prepayments and other receivables	*14*	334	18	16
Cash and cash equivalents	*15*	1,765	359	1
		2,099	377	17
Current liabilities				
Other payables and accruals	*16*	571	396	28
Amounts due to related parties	*17*	1,721	1,401	14
		2,292	1,797	42
Net current liabilities		(193)	(1,420)	(25)
Total assets less current liabilities/Net assets		2,676	10,132	11,581
EQUITY				
Paid-up capital	*18*	4,077	12,097	12,097
Reserves	*19*	(1,401)	(1,965)	(516)
Total equity		2,676	10,132	11,581

Cash Flow Statements

	Notes	Year ended 31 December 2005 RMB'000	2006 RMB'000	2007 RMB'000
Cash flows from operating activities				
Loss before income tax		(438)	(564)	(197)
Adjustments for:				
Interest income		(1)	(5)	(1)
Depreciation of property, plant and equipment		4	6	6
Write-back of other payables		(15)	–	–
Operating loss before working capital changes		(450)	(563)	(192)
(Increase)/Decrease in deposits, prepayments and other receivables		(274)	316	2
Increase/(Decrease) in other payables and accruals		276	(175)	(109)
Increase/(Decrease) in amounts due to related parties		1,374	(320)	–
Net cash generated from/ (used in) operating activities		926	(742)	(299)
Cash flows from investing activities				
Purchases of property, plant and equipment		(260)	(27)	–
Expenditure in exploration and evaluation costs		(1,165)	(8,662)	(60)
Increase in long term prepayment		(230)	–	–
Interest received		1	5	1
Net cash used in investing activities		(1,654)	(8,684)	(59)
Cash flows from financing activities				
Proceeds from capital contribution		2,422	8,020	–
Net cash generated from financing activities		2,422	8,020	–
Net increase/(decrease) in cash and cash equivalents		1,694	(1,406)	(358)
Cash and cash equivalents at beginning of the year		71	1,765	359
Cash and cash equivalents at end of the year	*15*	1,765	359	1

Statements of Changes in Equity

	Paid-up capital *RMB'000*	Capital contribution by equity holder *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2005	1,655	–	(963)	692
Loss for the year (Total recognised income and expense for the year)	–	–	(438)	(438)
Capital contribution by equity holder	2,422	–	–	2,422
At 31 December 2005 and 1 January 2006	4,077	–	(1,401)	2,676
Loss for the year (Total recognised income and expense for the year)	–	–	(564)	(564)
Capital contribution by equity holder	8,020	–	–	8,020
At 31 December 2006 and 1 January 2007	12,097	–	(1,965)	10,132
Loss for the year (Total recognised income and expense for the year)	–	–	(197)	(197)
Waiver of debt by an ex-fellow subsidiary/Debts borne by an ex-holding company	–	1,646	–	1,646
At 31 December 2007	12,097	1,646	(2,162)	11,581

II. NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION

The CJV's principal operations are conducted in the PRC. The Financial Information is presented in RMB, which is also the functional currency of the CJV.

The Financial Information set out in this report has been prepared in accordance with HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the HKICPA and have been consistently applied throughout the Relevant Periods.

The Financial Information also includes the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM Listing Rules") of The Stock Exchange of Hong Kong Limited ("Stock Exchange").

2. ADOPTION OF NEW AND AMENDED HKFRSs

The CJV has adopted all the new and amended HKFRSs which are effective for the accounting periods beginning on 1 January 2007, issued by the HKICPA and relevant to the CJV in the preparation of the Financial Information throughout the Relevant Periods.

The CJV has not early adopted the following standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[5]
Amendment to HKFRS 2	Share-based Payment-Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[5]
HKFRS 8	Operating Segments [1]
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions [2]
HK(IFRIC) – Int 12	Service Concession Arrangements [3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes [4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and Their Interaction [3]

Note

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 March 2007
[3] Effective for annual periods beginning on or after 1 January 2008
[4] Effective for annual periods beginning on or after 1 July 2008
[5] Effective for annual periods beginning on or after 1 July 2009

Among these new standards and interpretations, HKAS 1 (Revised) is expected to be relevant to the CJV's Financial Information.

Amendment to HKAS 1 Presentation of Financial Statements

This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the CJV but will give rise to additional disclosures. Management is currently assessing the detailed impact of this amendment on the CJV's Financial Information.

The directors of the CJV are currently assessing the impact of the other new standards and interpretations but are not yet in a position to state whether they would have material financial impact on the CJV's Financial Information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Financial Information has been prepared in accordance with the significant accounting policies set out below. These polices have been consistently applied to all the years presented unless otherwise stated. The Financial Information has been prepared on the historical cost convention. The measurement bases are fully described in the accounting policies below.

The Financial Information is the first set of financial statements prepared in accordance with HKFRSs by the CJV. HKFRS 1 "First-time Adoption of Hong Kong Financial Reporting Standards" has been applied in preparing the Financial Information of the CJV.

An explanation of how the transition to HKFRSs has affected the reported financial position and financial performance of the CJV's beginning balances for the year ended 31 December 2005 is provided in note 28.

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

In preparing the Financial Information, the directors of the CJV have given consideration to the future liquidity of the CJV in light of its net current liabilities of approximately RMB193,000, RMB1,420,000 and RMB25,000 as at 31 December 2005, 2006 and 2007 respectively. Notwithstanding this, the Financial Information has been prepared on a going concern basis on the assumption that the CJV will continue to operate as a going concern. The going concern basis has been adopted on the basis of the continuing financial support from a shareholder, by subsequent capital contribution of US$1,510,000 and the amount was received on 9 January 2008.

Should the CJV be unable to continue in business as a going concern, adjustments would have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might arise, and to reclassify non-current assets as current assets. These adjustments have not been reflected in the Financial Information.

(b) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items 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 and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(c) Revenue recognition

Provided it is probable that the economic benefits will flow to the CJV and the revenue can be measured reliably, the revenue is recognised as follows:

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

(d) Intangible assets – "exploration and evaluation assets"

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

(e) Property, plant and equipment

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

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

Depreciation is provided to write off the cost of the asset less its residual values estimated at 10% of the cost over the estimated useful lives, using the straight-line method. The estimated useful lives used for this purpose are as follows:

Furniture and equipment	5 years
Motor vehicle	10 years

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

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

(f) Impairment of assets

Property, plant and equipment and intangible assets are subject to impairment testing. All other assets are tested for impairment whenever there are indications that the asset may be impaired.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

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

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

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

(g) Financial assets

The CJV's financial assets include other receivables and cash and cash equivalents. Other receivables are classified into loans and receivables. Management determines the classifications of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the CJV becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus, directly attributable transaction costs.

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

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

At each balance sheet date, financial assets are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the income statement of the period in which the impairment occurs.

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

(h) Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

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

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

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

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

(i) Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand which form an integral part of the CJV's cash management.

(j) Paid-up capital

Paid-up capital is classified as equity. This is determined using the proceeds from capital contributions made by the investor.

(k) Financial liabilities

The CJV's financial liabilities include other payables and accruals and amounts due to related parties.

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

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Other payables and accruals and amounts due to related parties

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

(l) Leases

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

Leases which do not transfer substantially all the risks and rewards of ownership to the CJV are classified as operating leases.

Where the CJV has the right to use the assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

(m) Retirement benefit costs and short term employee benefits

Defined contribution plan

Pursuant to the relevant regulations of the PRC government, the CJV participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the CJV is required to contribute a certain percentage of the basic salaries of their employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the CJV. The only obligation of the CJV with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the income statement as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of service rendered by employees up to the balance sheet date.

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

(n) Related parties

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

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

– controls, is controlled by, or is under common control with, the CJV

– has an interest in the CJV that gives it significant influence over the CJV; or

– has joint control over the CJV;

(ii) the party is an associate;

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

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

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

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

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

(o) Provisions, contingent liabilities and contingent assets

Provisions are recognised when the CJV has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Impairment of intangible assets – "exploration and evaluation assets"

The carrying value of exploration and evaluation assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The CJV considers all facts and circumstances occurred which would suggest that the carrying amount of the exploration and evaluation assets may exceed its recoverable amount. As a result, no impairment loss is recognised in the Relevant Periods. Management reassesses the impairment of intangible assets at the respective balance sheet dates. No amortisation has been charged during the Relevant Periods as the intangible assets are not yet available for use.

Impairment of deposits and prepayments

Allowances for impairment of deposits and prepayments are determined by management of the CJV based on the nature and aging of the deposits and prepayments and the current market conditions. It could change significantly as a result of changes in the financial position of the entity to whom the deposits and prepayments are paid. Management reassesses the impairment of receivables at the respective balance sheet dates.

5. REVENUE

The principal activity of the CJV is the exploration of mine in the PRC at the permitted and authorised locations. Since the CJV has not carried on any business during the Relevant Periods, there was no revenue recognised.

6. OTHER REVENUE

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Bank interest income	1	5	1
Write-back of other payables	15	–	–
	16	5	1

7. SEGMENT INFORMATION

No separate analysis of segment information by business or geographical segments is presented as the CJV's sole business is the exploration of mine. The CJV's expenses, results, assets and liabilities are capital expenditure are principally attributable to a single geographical region which is the PRC.

8. LOSS BEFORE INCOME TAX

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Loss before income tax is arrived at after charging:			
Auditors' remuneration	2	2	4
Depreciation of property, plant and equipment	13	49	49
Less: amount capitalised in intangible assets – "exploration and evaluation assets"	(9)	(43)	(43)
	4	6	6
Operating lease payments in respect of rented premises	53	53	2

9. INCOME TAX EXPENSE

No income tax has been provided as the CJV did not derive any assessable profits arising in the PRC during the Relevant Periods.

Reconciliation between income tax expense and accounting loss at applicable tax rate is as follows:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Loss before income tax	(438)	(564)	(197)
Tax on loss before income tax, calculated at the statutory tax rate of 33%	(144)	(186)	(65)
Tax effect of non-deductible expenses	144	186	65
Income tax expense	–	–	–

According to the income tax rules and regulations of the PRC, the CJV is eligible for certain tax holiday and concession. The tax holiday and concession normally are in the form of two years tax exemption from the first profitable year, followed by a 50% reduction of the applicable tax rate in the following three years. The CJV had not yet applied the tax holiday and concession during the Relevant Periods.

At 31 December 2005, 2006 and 2007, the CJV has unused tax losses of approximately RMB1,338,000, RMB1,835,000 and RMB386,000 respectively available to offset future profit. No deferred tax asset has been recognised due to the uncertainty of future taxable profit. The tax losses of the CJV can be carried forward for 5 years.

As at 31 December 2005, 2006 and 2007, no deferred tax liability has been provided as the CJV did not have any significant temporary differences which give rise to a deferred tax liability.

10. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and allowances	296	273	144
Retirement benefits scheme contributions	30	22	35
	326	295	179

11. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the directors for the year ended 31 December 2005 are as follows:

	Notes	**Fees** *RMB'000*	**Salaries and allowances** *RMB'000*	**Contribution to pension scheme** *RMB'000*	**2005 Total** *RMB'000*
Anthony Tam	*(iii)*	–	–	–	–
Cheung Hui Ming	*(i)*	–	122	–	122
Graham Taylor	*(iii)*	–	–	–	–
Jason Birmingham	*(i) & (ii)*	–	–	–	–
Michael Atkinson	*(i) & (ii)*	–	–	–	–
Peter Smith	*(iii)*	–	–	–	–
Ruben Verzosa	*(i) & (ii)*	–	–	–	–
Yang Yong Jin	*(i) & (ii)*	–	80	10	90
Zhang Yan	*(iii)*	–	–	–	–
		–	202	10	212

Notes:

(i) appointed on 10 May 2004

(ii) resigned on 2 August 2005

(iii) appointed on 2 August 2005

The emoluments paid or payable to each of the directors for the year ended 31 December 2006 are as follows:

	Fees *RMB'000*	**Salaries and allowances** *RMB'000*	**Contribution to pension scheme** *RMB'000*	**2006 Total** *RMB'000*
Anthony Tam	–	–	–	–
Cheung Hui Ming	–	143	–	143
Graham Taylor	–	–	–	–
Peter Smith	–	–	–	–
Zhang Yan	–	–	–	–
	–	143	–	143

The emoluments paid or payable to each of the directors for the year ended 31 December 2007 are as follows:

	Notes	Fees *RMB'000*	Salaries and allowances *RMB'000*	Contribution to pension scheme *RMB'000*	2007 Total *RMB'000*
Anthony Tam	*(i)*	–	–	–	–
Cheung Hui Ming		–	–	–	–
Graham Taylor	*(i)*	–	–	–	–
Leung Ngai Man	*(ii)*	–	–	–	–
Luo Zhi Ming	*(ii)*	–	–	–	–
Peter Smith	*(i)*	–	–	–	–
Tang Wan Wa	*(ii)*	–	–	–	–
Wu Wei Hua	*(ii)*	–	–	–	–
Zhang Yan	*(i)*	–	–	–	–
		–	–	–	–

Notes:

(i) resigned on 11 November 2007

(ii) appointed on 14 November 2007

No director of the CJV waived or agreed to waive any emoluments during the Relevant Periods.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the CJV included two, one and nil directors during the year ended 31 December 2005, 2006 and 2007 respectively whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three, four and five highest paid individuals for the year ended 31 December 2005, 2006 and 2007 respectively, which fell within the salary band of RMB Nil – RMB1 million, are as follows:

	Year ended 31 December		
	2005 *RMB'000*	2006 *RMB'000*	2007 *RMB'000*
Salaries and allowance	94	94	94
Contributions to pension scheme	20	20	29
	114	114	123

During the Relevant Periods, no emolument were paid by the CJV to the five highest paid individuals, including the directors, as an inducement to join or upon joining the CJV or as compensation for loss of office.

12. PROPERTY, PLANT AND EQUIPMENT

	Furniture and equipment *RMB'000*	Motor vehicle *RMB'000*	Total *RMB'000*
At 1 January 2005			
Cost	62	–	62
Accumulated depreciation	(6)	–	(6)
Net book amount	56	–	56
Year ended 31 December 2005			
Opening net book amount	56	–	56
Additions	112	148	260
Depreciation	(12)	(1)	(13)
Closing net book amount	156	147	303
At 31 December 2005 and 1 January 2006			
Cost	174	148	322
Accumulated depreciation	(18)	(1)	(19)
Net book amount	156	147	303
Year ended 31 December 2006			
Opening net book amount	156	147	303
Additions	27	–	27
Depreciation	(36)	(13)	(49)
Closing net book amount	147	134	281
At 31 December 2006 and 1 January 2007			
Cost	201	148	349
Accumulated depreciation	(54)	(14)	(68)
Net book amount	147	134	281
Year ended 31 December 2007			
Opening net book amount	147	134	281
Depreciation	(36)	(13)	(49)
Closing net book amount	111	121	232
At 31 December 2007			
Cost	201	148	349
Accumulated depreciation	(90)	(27)	(117)
Net book amount	111	121	232

13. INTANGIBLE ASSETS – "EXPLORATION AND EVALUATION ASSETS"

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Exploration right	12	36	71
Technical feasibility studies	1,934	4,138	4,206
Exploratory drilling and sampling	390	7,097	7,097
	2,336	11,271	11,374

On the date of establishment, the PRC Partner agreed to transfer an exploration permit to the CJV. The transfer procedures were completed and on 6 February 2005, 雲南省德宏傣族景頗族自治州潞西市三台山鄉大崗壩地區金礦普查 ("Luoxi City, Dehong Dai and Jingpo Autonomous Prefecture, Yunnan Province, the PRC") (for identification purpose only), authorised by the Ministry of Land and Resources of Yunnan Province, the PRC, granted the CJV the exploration permit for conducting geographical exploration over the Gold Mining Sites in Luoxi City, Yunnan Province, the PRC, for the period up to 22 April 2010, which cover an exploration area of 113.96 square kilometres.

In the opinion of the directors, the CJV will be able to renew the exploration rights with the relevant government authorities continuously.

The directors have considered whether there were facts and circumstances that indicate the intangible assets may have been impaired in accordance with paragraph 18 of HKFRS 6. The list of indications in paragraph 20 of HKFRS 6 has been referred to. In the opinion of the directors, at the balance sheet date, there was no indications that the intangible assets have been impaired.

14. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Deposits	5	3	3
Prepayments	522	15	13
Other receivables	37	–	–
	564	18	16
Less: Long-term prepayment	(230)	–	–
Deposits, prepayment and other receivables under current assets	334	18	16

15. CASH AND CASH EQUIVALENTS

As at 31 December 2005, 2006 and 2007, included in cash and cash equivalents of the CJV are approximately RMB1,714,000, RMB350,000 and RMB1,000 respectively of bank balances denominated in RMB and placed with banks in the PRC. RMB is not freely convertible into foreign currencies.

The bank balances earn interest at floating rates based on daily bank deposit rates.

16. OTHER PAYABLES AND ACCRUALS

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Other payables	119	269	10
Accruals	452	127	18
	571	396	28

17. AMOUNTS DUE TO RELATED PARTIES

		As at 31 December		
		2005	**2006**	**2007**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Amount due to a minority shareholder		579	359	2
Amount due to a director		–	–	12
Amounts due to related companies	*(a)*	1,142	1,042	–
		1,721	1,401	14

The amounts are unsecured, interest free and repayable on demand.

Note:

(a) As at 31 December 2005, the balance composed the amount due to 核工業209芒市金礦 ("Mangshi Gold Mine of Team 209") of RMB100,000, a company in which the PRC Partner, the minority shareholder of the CJV, has beneficial interest and the amount due to 雲南龍騰礦業有限公司 ("Yunnan LongTeng") of RMB1,042,000, an ex-fellow subsidiary of the CJV. As at 31 December 2006, the balance represented amount due to Yunnan LongTeng.

18. PAID-UP CAPITAL

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Registered capital:			
At beginning and the end of year	24,913	24,913	24,913

	Notes	*US$'000*	**Equivalent to** *RMB'000*
Paid-up capital:			
At 1 January 2005		200	1,655
Capital contribution	*(a)*	300	2,422
At 31 December 2005 and 1 January 2006		500	4,077
Capital contribution	*(b)*	200	1,614
Capital contribution	*(c)*	200	1,608
Capital contribution	*(d)*	300	2,405
Capital contribution	*(e)*	100	801
Capital contribution	*(f)*	147	1,178
Capital contribution	*(g)*	53	414
At 31 December 2006 and 2007		1,500	12,097

The CJV was established on 14 May 2004 as a limited liability company with registered capital of US$3,010,000 (equivalent to RMB24,913,000).

Notes:

(a) The paid up capital has been verified by Yunnan Guangda CPA in a capital verification report dated 30 December 2005 (雲光會計驗字(2005)第75號) (Yun Guang Yan Zi (2005) Number 75) (for identification purpose only).

(b) The paid up capital has been verified by Yunnan Guangda CPA in a capital verification report dated 25 January 2006 (雲光會計驗字(2006)第013號) (Yun Guang Yan Zi (2006) Number 013) (for identification purpose only).

(c) The paid up capital has been verified by Yunnan Guangda CPA in a capital verification report dated 29 March 2006 (雲光會計驗字(2006)第031號) (Yun Guang Yan Zi (2006) Number 031) (for identification purpose only).

(d) The paid up capital has been verified by Yunnan Guangda CPA in a capital verification report dated 28 April 2006 (雲光會計驗字(2006)第044號) (Yun Guang Yan Zi (2006) Number 044) (for identification purpose only).

(e) The paid up capital has been verified by Yunnan Guangda CPA in a capital verification report dated 31 May 2006 (雲光會計驗字(2006)第055號) (Yun Guang Yan Zi (2006) Number 055) (for identification purpose only).

(f) The paid up capital has been verified by Yunnan Guangda CPA in a capital verification report dated 31 October 2006 (雲光會計驗字(2006)第081號) (Yun Guang Yan Zi (2006) Number 081) (for identification purpose only).

(g) The paid up capital has been verified by Yunnan Guangda CPA in a capital verification report dated 31 December 2006 (雲光會計驗字(2006)第094號) (Yun Guang Yan Zi (2006) Number 094) (for identification purpose only).

19. RESERVES

		As at 31 December		
		2005	**2006**	**2007**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Capital contribution from holding company	*23(c)*	–	–	1,646
Accumulated losses		(1,401)	(1,965)	(2,162)
		(1,401)	(1,965)	(516)

20. NOTES TO CASH FLOW STATEMENTS

Major non-cash transactions

(a) On 10 November 2007, the CJV's then shareholder, 金河資源有限公司 Golden River Resources Co. Ltd. ("Golden River"), and China Mining Group Investment Limited (the "Subsidiary") entered into a share transfer agreement in which Golden River agreed to transfer its 80% of equity interest in the CJV to the Subsidiary. As stated in the agreement, Golden River agreed to take up all liabilities of the CJV up to 10 November 2007 upon transfer of the equity interests.

As at 10 November 2007, the CJV had amount due to its trade and other payables of RMB259,000, amount due to a minority shareholder of RMB345,000 and amount due to its then fellow subsidiary of RMB1,042,000. The ex-fellow subsidiary agreed to waive the debt of RMB1,042,000 due by the CJV. The remaining debts of total RMB604,000 were borne by Golden River.

21. CAPITAL COMMITMENTS

The CJV had the following outstanding capital commitments:

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Intangible assets – "exploration and evaluation assets" – Contracted but not provided for	315	–	–

22. OPERATING LEASE COMMITMENTS

The total future aggregate minimum lease payments under non-cancellable operating leases are payable by the CJV as follows:

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	397	14	13
In the second to fifth years	–	–	48
	397	14	61

The CJV leases several office and housing premises under operating leases. The lease runs for an initial period of half year to five years. None of the leases includes contingent rentals.

23. RELATED PARTY TRANSACTIONS

Apart from the transactions with related parties disclosed elsewhere in this report, the CJV had the following transactions with its related parties during the Relevant Periods:

(a) On 19 December 2007, the CJV and Mangshi Gold Mine of Team 209, entered into a Raw Gold Mine Supply Agreement. Under the agreement, the CJV agreed to purchase and Mangshi Gold Mine of Team 209 agreed to sell all the ore extracted from the mine at a price of RMB 12 per ton. The agreement is of a term expiring on 31 December 2010. The expected amount of ore to be supplied to the CJV under the agreement will be not less than 1,500,000 tones, not less than 2,250,000 tones and not less than 3,000,000 tones, for the period commencing from the date of the agreement and ending on 31 December 2008, and the two years ending 31 December 2009 and 31 December 2010, respectively, and include a buffer of 20% for the increase in the amount of ore to be supplied to the CJV.

(b) **Compensation of key management personnel**

		Year ended 31 December		
		2005	**2006**	**2007**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Total remuneration of directors and other members of key management	*11(a)*	212	143	–

The directors considered that other than themselves, the CJV had no other key management personnel.

(c) Waiver of debt by an ex-fellow subsidiary/Debts borne by an ex-holding company

On 10 November 2007, the CJV's then shareholder, Golden River, and the Subsidiary entered into a share transfer agreement in which Golden River agreed to transfer its 80% of equity interest in the CJV to the Subsidiary. As stated in the agreement, Golden River agreed to take up all liabilities of the CJV up to 10 November 2007 upon transfer of the equity interests.

As a result of the agreement, the ex-fellow subsidiary agreed to waive the debt of RMB1,042,000 due by the CJV. The remaining debts of total RMB604,000 were borne by Golden River. The total amount of RMB1,646,000 was recorded as capital contribution by equity holder.

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Waiver of debt by an ex-fellow subsidiary	–	–	1,042
Debts borne by an ex-holding company	–	–	604
	–	–	1,646

(d) During the Relevant Periods, the CJV's office premise was leased by an ex-fellow subsidiary for several months without charging the CJV for any rental.

24. CONTINGENT LIABILITIES

The CJV did not have any significant contingent liabilities as at the respective balance sheet dates.

25. RISK MANAGEMENT OBJECTIVES AND POLICIES

The CJV is exposed to a variety of financial risks which result from both its operating and investing activities. The CJV does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate strategies to manage the CJV's exposure to market risk, including changes in interest rates and currency exchange rates. Generally, the CJV introduces conservative strategies on its risk management. The CJV's exposure to market risk is kept to a minimum. The most significant financial risks to which the CJV is exposed are described below.

(a) Interest rate risk

The CJV has no significant interest bearing liabilities. The CJV's exposure to market risk for changes in interest rates relates primarily to deposits at bank but the CJV's loss for the years are not sensitive to a reasonably possible change of interest rate. The CJV has not used any interest rate swaps to hedge its exposure to interest rate risk. However, the directors monitor interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

(b) Foreign currency risk

The CJV has no significant exposure to foreign currency risk as the CJV mainly operated in the PRC with most of the transactions mainly denominated in RMB which is its functional currency.

(c) Credit risk

All of the CJV's cash and cash equivalents are deposited with reputable banks located in the PRC. The credit risk is considered negligible.

The carrying amounts of other receivables represent the CJV's maximum exposure to credit risk in relation to its financial assets other than deposits with banks. No other financial assets carry a significant exposure to credit risk. The CJV continuously monitors defaults of other counterparties and incorporates this information into its credit risk controls. The CJV's management considers that all the above financial assets are of good credit quality for each of the reporting dates under review.

None of the CJV's financial assets are secured by collateral or other credit enhancements.

(d) Liquidity risk

The CJV's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. In the opinion of directors, the CJV's exposure to liquidity risk is limited.

The following table details the remaining contractual maturities at each of the balance sheet dates of the CJV's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rate or, if floating, based on rates current at the balance sheet date) and the earliest date the CJV can be required to pay:

	Carrying amount	**Total contractual undiscounted cash flow**	**Within one year or on demand**
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2005			
Other payables and accruals	571	(571)	(571)
Amounts due to related parties	1,721	(1,721)	(1,721)
	2,292	(2,292)	(2,292)
As at 31 December 2006			
Other payables and accruals	396	(396)	(396)
Amounts due to related parties	1,401	(1,401)	(1,401)
	1,797	(1,797)	(1,797)
As at 31 December 2007			
Other payables and accruals	28	(28)	(28)
Amounts due to related parties	14	(14)	(14)
	42	(42)	(42)

(e) Fair values

At the balance sheet dates, the fair values of the CJV's current financial assets and liabilities are not materially different from their carrying amount because of the immediate or short term maturity of these financial instruments.

(f) Summary of financial assets and liabilities by category

The carrying amounts of the CJV's financial assets and liabilities as recognised at the balance sheet dates of the Relevant Periods under review may also be categorised as follows. See notes 3(g) and 3(k) for explanations about how the categorisation of financial instruments affects their subsequent measurement.

	As at 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Current assets			
Loan and receivables			
– Other receivables	37	–	–
– Cash and cash equivalents	1,765	359	1
	1,802	359	1
Financial liabilities			
Current liabilities			
Financial liabilities measured at amortised cost			
– Other payables and accruals	571	396	28
– Amounts due to related parties	1,721	1,401	14
	2,292	1,797	42

26. CAPITAL MANAGEMENT

The CJV's objectives when managing capital are:

(a) To safeguard the CJV's ability to continue as a going concern, so that it continues to provide returns and benefits for stakeholders;

(b) To support the CJV's stability and growth; and

(c) To provide capital for the purpose of strengthening the CJV's risk management capability.

The CJV actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the CJV and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The CJV currently does not adopt any formal dividend policy. Management regards total equity of RMB2,676,000, RMB10,132,000 and RMB11,581,000 as at 31 December 2005, 2006 and 2007 respectively as capital, for capital management purpose.

27. POST BALANCE SHEET EVENTS

On 9 January 2008, paid up capital of US$1,510,000 was received by the CJV and the amount has been verified by Yunnan Guangda CPA in a capital verification report dated 9 January 2008 (雲光會計驗字(2008)第1號) (Yun Guang Yan Zi (2008) Number 1) (for identification purpose only).

Save as disclosed above and elsewhere in this report, no other significant events has taken place subsequent to 31 December 2007.

28. EXPLANATION OF TRANSITION OF HKFRSs

This is the first set of financial information of the CJV prepared in accordance with HKFRSs. The accounting policies set out in note 3 have been applied both in preparing the Financial Information for the Relevant Periods and in preparing of the opening HKFRS balance sheet at 1 January 2005. In preparing its opening HKFRS balance sheet, the CJV has adjusted the amounts reported previously in its statutory financial statements prepared in accordance with the accounting regulations in the PRC (the "PRC GAAP"). An explanation of how the transition from the PRC GAAP to HKFRSs has affected the CJV's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Balance sheet as at 1 January 2005

	Note	PRC GAAP	Effect of transition to HKFRS adjustment	Other adjustments	HKFRSs
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment		56	–	–	56
Intangible assets					
– "exploration and evaluation assets"	*(a),(d)*	–	1,054	108	1,162
Long term prepayment		–	–	–	–
		56	1,054	108	1,218
Current assets					
Inventory	*(a)*	1,054	(1,054)	–	–
Deposits, prepayments and other receivables		60	–	–	60
Cash and cash equivalents		71	–	–	71
		1,185	(1,054)	–	131
Current liabilities					
Other payables and accruals	*(b)*	(657)	347	–	(310)
Amounts due to related parties	*(b)*	–	(347)	–	(347)
		(657)	–	–	(657)
Net current assets/(liabilities)		528	(1,054)	–	(526)
Total assets less current liabilities/ net assets		584	–	108	692
EQUITY					
Paid-up capital		1,655	–	–	1,655
Reserves	*(d)*	(1,071)	–	108	(963)
Total equity		584	–	108	692

Income statement for the year ended 31 December 2007

	Note	PRC GAAP RMB'000	Effect of transition to HKFRS adjustment RMB'000	Other adjustments RMB'000	HKFRSs RMB'000
Revenue		–	–	–	–
Other revenue	*(c),(d)*	1,661	(1,646)	(14)	1
Administrative expenses	*(d)*	(327)	–	129	(198)
Other operating expenses	*(d)*	(48)	–	48	–
Profit/(loss) before income tax		1,286	(1,646)	163	(197)
Income tax expense		–	–	–	–
Profit/(loss) for the year		1,286	(1,646)	163	(197)

Balance sheet as at 31 December 2007

	Note	PRC GAAP RMB'000	Effect of transition to HKFRS adjustment RMB'000	Other adjustments RMB'000	HKFRSs RMB'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment		232	–	–	232
Intangible assets – "exploration and evaluation assets"	*(d)*	11,323	–	51	11,374
		11,555	–	51	11,606
Current assets					
Deposits, prepayments and other receivables	*(d)*	67	–	(51)	16
Cash and cash equivalents		1	–	–	1
		68	–	(51)	17
Current liabilities					
Other payables and accruals	*(b)*	(42)	14	–	(28)
Amounts due to related parties	*(b)*	–	(14)	–	(14)
		(42)	–	–	(42)
Net current assets/(liabilities)		26	–	(51)	(25)
Total assets less current liabilities/ net assets		11,581	–	–	11,581
EQUITY					
Paid-up capital		12,097	–	–	12,097
Reserves		(516)	–	–	(516)
Total equity		11,581	–	–	11,581

Notes

(a) Under the PRC GAAP, the exploration and evaluation assets of RMB1,054,000 was classified as inventory as at 1 January 2005. It had been reclassified as intangible assets under non-current assets.

(b) Under PRC GAAP, amounts due to related parties of RMB347,000 and RMB14,000 were included in other payables and accruals as at 1 January 2005 and 31 December 2007 respectively. The amounts had been reclassified as "Amounts due to related parties" on the face of balance sheets.

(c) Under PRC GAAP, waiver of debt by an ex-fellow subsidiary/debts borne by ex-holding company of RMB1,646,000 was classified as other revenue for the year ended 31 December 2007. The amount had been reclassified as capital contribution by equity holder under reserves.

(d) Other adjustments are mainly due to audit adjustments.

(e) Explanation of material adjustments to the cash flow statement for the year ended 31 December 2007:

Expenditure of RMB60,000 paid for exploration and evaluation costs was classified as investing activities under HKFRSs, but was classified as operating activities under PRC GAAP. There are no other material differences between the cash flow statement presented under HKFRSs and the cash flow statement presented under PRC GAAP.

29. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the CJV were prepared in respect of any period subsequent to 31 December 2007.

Yours faithfully,

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

1. INTRODUCTION

The following is the unaudited pro forma financial information of the Enlarged Group prepared in accordance with the GEM Listing Rules for the purpose of illustrating the effect of the Acquisition on the financial position, results and cash flows of the Group as if the Acquisition had been completed. As it is prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the financial position, results and cash flows of the Enlarged Group following the completion of the Acquisition.

The unaudited pro forma consolidated balance sheet of the Enlarged Group is prepared based on the audited consolidated balance sheet of the Group as at 31 December 2007 extracted from the published audited annual report of the Group as of 31 December 2007 as set out in Appendix IA to this circular and the audited consolidated balance sheet of the Target Group as at 31 December 2007 as extracted from the accountants' report set out in Appendix IIA to this circular as if the Acquisition had been completed on 31 December 2007.

The unaudited pro forma consolidated income statement and cash flow statement of the Enlarged Group are prepared based on the audited consolidated income statement and cash flow statement of the Group for the year ended 31 December 2007 extracted from the published annual report of the Group as of 31 December 2007 as set out in Appendix IA to this circular and the audited consolidated income statement and cash flow statement of the Target Group for the period ended 31 December 2007 as extracted from the accountants' report on the Target Group set out in Appendix IIA to this circular as if the Acquisition had been completed on 1 January 2007. However, as the financial information of the Target Group presented in the unaudited pro forma income statement and cash flow statement of the Enlarged Group only covers the period from 30 March 2007 (being its date of incorporation) to 31 December 2007, there was no financial information of the Target Group for a completed financial year.

2. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

	The Group as at 31 December 2007 *HK$'000*	Target Group as at 31 December 2007 *HK$'000*	*Notes*	Pro forma adjustments *HK$'000*	Pro forma Enlarged Group as at 31 December 2007 *HK$'000*
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	3,576	243			3,819
Prepaid lease payments	16,189	–			16,189
Goodwill	–	–	*(2)*	1,262,733	1,262,733
Intangible assets – supply agreement	–	–	*(2)*	659,400	659,400
Intangible assets – "exploration and evaluation assets"	–	11,943			11,943
	19,765	12,186			1,954,084
Current assets					
Inventories	65	–			65
Trade receivables	132	–			132
Deposits, prepayments and other receivables	178	17			195
Amount due from a subsidiary	–	–	*(1)*	950	–
			(1)	(950)	
Cash and cash equivalents	74,043	26	*(1)*	(68,340)	5,729
	74,418	43			6,121
Current liabilities					
Bank overdrafts	380	–			380
Other payables and accruals	603	37			640
Amount due to a shareholder	–	950	*(1)*	(950)	–
Amount due to a subsidiary's director	–	13			13
Amount due to ultimate holding company	–	–	*(1)*	(950)	–
			(1)	950	
Loans from a shareholder	3,275	–			3,275
	4,258	1,000			4,308
Net current assets/(liabilities)	70,160	(957)			1,813
Total assets less current liabilities	89,925	11,229			1,955,897
Non-current liabilities					
Due to minority shareholders of subsidiaries	502	–			502
Convertible bonds	–	–	*(3a)*	946,005	946,005
	502	–			946,507
Net assets	89,423	11,229			1,009,390
EQUITY					
Equity attributable to equity holders of the Company					
Share capital	1,181	–	*(4)*	212	1,393
Reserves	88,242	8,797	*(5)*	776,646	873,685
	89,423	8,797			875,078
Minority interests	–	2,432	*(2)*	131,880	134,312
Total equity	89,423	11,229			1,009,390

3. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP

	The Group year ended 31 December 2007 *HK$'000*	Target Group period ended 31 December 2007 *HK$'000*	*Note*	Pro forma adjustments *HK$'000*	Pro forma Enlarged Group year ended 31 December 2007 *HK$'000*
Revenue	2,609	–			2,609
Cost of sales	(1,811)	–			(1,811)
Gross profit	798	–			798
Other revenue	555	3			558
Negative goodwill	–	9,745			9,745
Selling and distribution expenses	(285)	–			(285)
Administrative expenses	(18,641)	(955)			(19,596)
Operating (loss)/profit	(17,573)	8,793			(8,780)
Finance costs	(1,581)	–	*(3b)*	(164,764)	(166,345)
(Loss)/Profit before income tax	(19,154)	8,793			(175,125)
Income tax expense	–	–			–
(Loss)/Profit for the year	(19,154)	8,793			(175,125)
Attributable to:					
Equity holders of the Company	(19,154)	8,797	*(3b)*	(164,764)	(175,121)
Minority interests	–	(4)			(4)
(Loss)/Profit for the year	(19,154)	8,793			(175,125)
Loss per share for loss attributable to the equity holders of the Company during the year					
– Basic *(note 8)*	(HK1.0 cent)				(HK7.6 cents)
– Diluted *(note 8)*	N/A				N/A

4. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP

	The Group year ended 31 December 2007	Target Group period ended 31 December 2007		Pro forma adjustments	Pro forma Enlarged Group year ended 31 December 2007
	HK$'000	*HK$'000*	*Note*	*HK$'000*	*HK$'000*
Cash flows from operating activities					
Profit/(loss) before income tax	(19,154)	8,793	*(3b)*	(164,764)	(175,125)
Adjustments for:					
Depreciation	92	4			96
Amortisation of prepaid lease payments	26	–			26
Employee share-based compensation	11,433	–			11,433
Interest income	(549)	(3)			(552)
Interest expense	1,581	–	*(3b)*	164,764	166,345
Negative goodwill	–	(9,745)			(9,745)
Operating loss before working capital changes	(6,571)	(951)			(7,522)
Increase in trade receivables	(118)	–			(118)
Increase in prepayments, deposits and other receivables	(63)	(16)			(79)
Increase/(decrease) in other payables and accrued expenses	(136)	26			(110)
Increase in amount due to a subsidiary's director	–	13			13
Cash used in operations	(6,888)	(928)			(7,816)
Interest paid	(2,088)	–			(2,088)
Net cash used in operating activities	(8,976)	(928)			(9,904)

	The Group year ended 31 December 2007 HK$'000	Target Group period ended 31 December 2007 HK$'000	Notes	Pro forma adjustments HK$'000	Pro forma Enlarged Group year ended 31 December 2007 HK$'000
Cash flows from investing activities					
Purchases of property plant and equipment	(3,630)	–			(3,630)
Upfront lease payments	(16,215)	–			(16,215)
Acquisition of subsidiaries	–	1	*(1)*	(67,390)	(67,389)
Loan to a subsidiary			*(1)*	(950)	–
			(1)	950	
Interest received	549	3			552
Increase in pledged deposit	(200)	–			(200)
Net cash (used in)/generated from investing activities	(19,496)	4			(86,882)
Cash flows from financing activities					
Proceeds from issuance of share capital	124,987	–			124,987
Proceeds from issuance of warrants	358	–			358
Share issued expenses	(3,895)	–			(3,895)
Advance of loans from a shareholder	21,700	950	*(1)*	(950)	21,700
Repayment of loans to a shareholder	(41,900)	–			(41,900)
Net cash from financing activities	101,250	950			101,250
Net increase in cash and cash equivalents	72,778	26			4,464
Cash and cash equivalents at beginning of year	675	–			675
Effect of foreign exchange rate changes, net	10	–			10
Cash and cash equivalents at end of year	73,463	26			5,149
Analysis of balances of cash and cash equivalents					
Cash at bank and in hand	73,792	26	*(1)*	(68,340)	5,478
Short-term bank deposits	51	–			51
	73,843	26			5,529
Bank overdraft, secured	(380)	–			(380)
	73,463	26			5,149

Notes to unaudited pro forma financial information of the Enlarged Group

(1) On 4 January 2008, Greatest High Holdings Limited, a wholly-owned subsidiary of the Company, entered into an agreement with the Vendor to acquire 100% of the issued share capital of the Target Company and 100% interest of the shareholder loan (the "Agreement"). The fair value of total consideration for the Acquisition is HK$1,799,050,000 which is to be satisfied in the following manners:

	HK$'000
Issue of Consideration Shares	169,920*
Issue of Convertible Bonds	1,561,740#
Cash	68,340^
Less: Amount due to a shareholder	(950)##
Cost of investments at Completion	1,799,050

Upon Completion of the Acquisition, the Target is considered by the directors of the Company as a subsidiary of the Company as the Target Company will be controlled by the Group after Completion. The consolidated balance sheet of the Target Group will be consolidated with that of the Group from the date on which control is transferred to the Group. The unaudited pro forma financial information is prepared based on the assumptions as adopted by the Directors that the Consideration Shares are to be issued without any fund raising exercise, and that the shares beneficially owned by the Vendor at Completion shall not exceed 29% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. The remaining consideration will then be settled by issuing the Convertible Bonds, up to HK$1,561.74 million, to the Vendor and cash.

The net cash outflow for the acquisition of subsidiaries of HK$67,390,000 as shown in the pro forma consolidated cash flow statement represents the net cash consideration after deducting the consideration for acquiring the shareholder loan of HK$950,000 from the total cash consideration of HK$68,340,000. Since the Target Group did not have any cash and cash equivalents at the beginning of the year, there is no effect on the cash outflow on the Acquisition as if the Acquisition had been completed on 1 January 2007.

* *According to the Agreement, the Consideration Shares will be issued at an issue price of HK$0.40 (the "Issue Price") per Consideration Share, credited as fully paid. The fair value of the Consideration Share is assumed for the purpose of the preparation of pro forma financial information as equal to the Issue Price of the Consideration Shares times the number of shares to be issued. The number of consideration share issued is based on the shares structure position as at 31 December 2007. Total 2,361,711,403 shares were in issue in which the Vendor held 383,288,000 shares and its shareholding was 16.23%. 424,800,432 consideration shares, is assumed to be issued.*

\# *The valuation of the Convertible Bonds was carried out by LCH (Asia-Pacific) Surveyors Limited, an independent firm of chartered surveyors. The basis of the valuation is detailed in Note 3a.*

^ *In addition to the amount of HK$65 million which was paid to Vendor on the date of the Agreement, the remaining balance in the amount of HK$3.34 million after deducting amount from the Consideration Shares and the Convertible Bonds is assumed to be settled by cash.*

\## *Upon Completion, the loan due to the Vendor by the Target Group will be transferred to the Company, on the other hand, there will be a balance of "Amount due to ultimate holding company" in the books of the Target Group and "Amount due from a subsidiary" in the books of the Company of HK$950,000. These two balances would be eliminated upon consolidation.*

(2) The pro forma adjustment is to reflect the effect of the Acquisition on the consolidated balance sheet of the Group as if the Acquisition had taken place on 31 December 2007.

Details of net identifiable assets to be acquired and the goodwill arising on the Acquisition are as follows:

	HK$'000
Cost of investment at Completion *(note 1)*	1,799,050
Less: Fair value of net identifiable assets to be acquired – as shown below	(536,317)
Goodwill	1,262,733

The identifiable assets and liabilities arising from the Acquisition are as follows:

	Fair value	Acquiree's carrying amount
	HK$'000	*HK$'000*
Property, plant and equipment	243	243
Intangible assets – "exploration and evaluation assets"	11,943	11,943
Deposits and prepayments	17	17
Cash and cash equivalents	26	26
Other payables and accruals	(37)	(37)
Amount due to a shareholder	(950)	(950)
Amount due to a director	(13)	(13)
Supply Agreement *(note i)*	659,400	–
Net assets as at 31 December 2007	670,629	11,229
Minority interest (20% of the CJV) *(note ii)*	(134,312)	
Net identifiable assets to be acquired	536,317	

It is assumed that the fair value of the identifiable assets and liabilities of the Target Group as at 31 December 2007 is the carrying amounts as recorded in the books of the Target Group as extracted from the accountants' report of the Target Group as set out in Appendix IIA to this circular plus the supply agreement entered on 19 December 2007, which is the additional net identifiable assets for the Acquisition. It is assumed that surplus of consideration over the fair value of net identifiable assets acquired is goodwill.

On Completion, the fair value of the consideration and the net identifiable assets and liabilities of the Target Group including the supply agreement will have to be assessed. As a result of the assessment, the amount of goodwill may be different from that estimated based on the basis stated above for the purpose or preparation of the unaudited pro forma financial information. Accordingly, the actual goodwill at the date of Completion may be different from that presented above.

Note:

(i) The valuation of the Supply Agreement was carried out by LCH (Asia-Pacific) Surveyors Limited, an independent firm of chartered surveyors. The fair value of the Supply Agreement is estimated using the discounted cash flow approach at the prevailing market rate of approximately 12.61% before inflation factor adjustment. The details of the valuation of the Supply Agreement and the assumptions made in the discounted cash flow method are set out in Appendix IV to this circular.

According to the Supply Agreement entered into between CJV and Ore Supplier, a company controlled by the PRC Partner, dated 19 December 2007, the Ore Supplier will undertake to sell and CJV agreed to purchase the ore extracted from a gold mining site located at Luxi City, Yunnan Province, the PRC at RMB12 per ton. The Supply Agreement is of a term expiring on 31 December 2010. The gold mining site is owned by the PRC Partner.

The Supply Agreement is classified as an intangible asset, as it is identifiable, can be controlled by the Company and will have future economic benefits to the Company. The initially value is its fair value at the date of acquisition. Following the initial recognition of the value of the Supply Agreement, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. The carrying value of the Supply Agreement is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the year.

As the Supply Agreement has not yet been used by the Group as at 31 December 2007, no amortisation on the value of the Supply Agreement is provided.

(ii) Minority interests (20% of the CJV) including share of 20% of the Supply Agreement of HK$131,880,000 (HK$659,400,000 x 20%)

(3a) This adjustment relates to the Convertible Bonds (note 1) issued for the purpose of the Acquisition. In accordance with Hong Kong Accounting Standards 32, Financial Instruments: Presentation, the Convertible Bonds are compound financial instruments of two elements, equity component and liability component. The valuation of the Convertible Bonds was carried out by LCH (Asia-Pacific) Surveyors Limited, an independent firm of chartered surveyors. The major assumption adopted in the valuation of the Convertible Bonds is to be issued without any fund raising exercise and after the deduction of the issue of the Consideration Shares. 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 10.55%. The fair value of the equity component of the Convertible Bonds is represented by the residual amount after taking out the liability component.

At Completion, an amount of HK$946,005,000 is credited as the liability component of the Convertible Bonds. The amount of HK$615,735,000, representing the difference between HK$1,561,740,000, 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.

The face value of the Convertible Bonds is assumed to be its fair value for the purpose of the preparation of pro forma financial information. On Completion, the fair value of the Convertible Bonds will have to be reassessed.

(3b) The adjustment represents the imputed interest expenses on the Convertible Bonds issued as part of the consideration for the Acquisition, calculated at the assumed effective interest rates of 10.55% per annum, as if they were issued on 1 January 2007. The imputed interest expenses are computed based on the principal amount of the Convertible Bonds for the year ended 31 December 2007. This unaudited pro forma adjustment will have continuing income statement effect to the Enlarged Group, and the actual amount will vary according to the timing when the Convertible Bonds are converted and the applicable interest rates.

(4) The adjustment is to reflect the effect of the issue of Consideration Shares by the Company.

	HK$'000
Share capital	
Issue of Consideration Shares (being 424,800,432 shares of HK$0.0005 each)	212
Premium on share issues	
Issue of Consideration Shares	169,708

(5) The adjustments are to reflect the following transactions arising upon Completion of the Acquisition.

	HK$'000
Premium on the share issues *(note 1 and note 4)*	169,708
Reserves of the Target Group as at 31 December 2007 (as extracted from Appendix IIA)	(8,797)
Equity component on Convertible Bonds *(note 3a)*	615,735
	776,646

(6) The unaudited pro forma financial information has been prepared in accordance with the accounting policies of the Group, as set out in the audited financial statements of the Group as at 31 December 2007 and reproduced in Appendix IA to this circular, prepared under Hong Kong Financial Reporting Standards.

(7) For the purpose of the preparation of the pro forma financial information, transaction costs are assumed to be nil.

(8) The calculation of the pro forma basic loss per share is based on the loss for the year attributable to equity holders of the Company of HK$175,121,000 for the Enlarged Group and on the weighted average number of 2,313,875,432 ordinary shares of the Enlarged Group in issue during the year.

Pro forma diluted loss per share for the Enlarged Group have not been disclosed as the share options, warrants and convertible bonds outstanding during the year were anti-dilutive.

(9) Subsequent to the year ended 31 December 2007, an ordinary resolution regarding the acquisition of 49% equity interests in Leland Solutions Limited from Sun Rise Int'l Trading Limited was passed on 15 February 2008 at an extraordinary general meeting by the shareholders of the Company and completion of such acquisition took place on 19 February 2008. For the pro forma financial information of the Group and Leland as extracted from the circular of the company dated 29 January 2008, please refer to Appendix IC to this circular.

5. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of an accountants' report dated 13 May 2008, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Grant Thornton, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group.

Grant Thornton
均富

Member of Grant Thornton International Ltd

13 May 2008

The Directors
China Metal Resources Holdings Limited
Unit 1006, 10th Floor
Tower One Lippo Centre
No. 89 Queensway
Hong Kong

Dear Sirs,

China Metal Resources Holdings Limited

We report on the unaudited pro forma financial information of China Metal Resources Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") and China Nonferrous Metals Resources Investment Limited (the "Target") and its subsidiaries (the "Target Group" and together with the Group hereinafter collectively referred to as the "Enlarged Group") (the "Unaudited Pro Forma Financial Information"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the acquisition by the Company of interests in the Target (the "Acquisition") might have affected the financial information presented, for inclusion in Appendix III of the Company's circular dated 13 May 2008 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the section headed "Unaudited Pro Forma Financial Information of the Enlarged Group" on pages III-1 to III-8 in Appendix III to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM 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 (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 7.31 of the GEM Listing Rules, on the Unaudited 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 Unaudited 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 HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited 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 Unaudited 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 Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we did not express any such assurance on the Unaudited Pro Forma Financial Information.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not give 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 31 December 2007 or any future date, or

– the results and cash flows of the Enlarged Group for the year ended 31 December 2007 or any future periods.

Opinion

In our opinion:

a. the Unaudited 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 Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully,

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

The following is the text of the valuation report on the subject mining project as at 31 December 2007 prepared by LCH for the purpose of inclusion in this circular.

利駿行測量師有限公司
LCH (Asia-Pacific) Surveyors Limited
CHARTERED SURVEYORS
PLANT AND MACHINERY VALUERS
BUSINESS & FINANCIAL SERVICES VALUERS

The readers are reminded that the report which follows has been prepared in accordance with the guidelines set by the International Valuation Standards, Eighth Edition, 2007 published by the International Valuation Standards Committee. The standards entitles the valuer to make assumptions which may on further investigation, for instance by the readers' legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. It is emphasised that the findings and conclusions presented below are based on the documents and facts known to the valuer at the date of this report. If additional documents and facts are made available, the valuer reserves the right to amend this report and its conclusions.

17th Floor
Champion Building
No. 287-291 Des Voeux Road Central
Hong Kong

13 May 2008

The Directors
China Metal Resources Holdings Limited
Office Unit 1006, 10th Floor
Tower One, Lippo Centre
No. 89 Queensway
Hong Kong

Dear Sirs,

In accordance with the instruction given to us by the management of China Metal Resources Holdings Limited (hereinafter referred to as the "Company"), we have conducted an agreed-upon procedures evaluation of a project comprises an ore supply portion and an exploration portion (collectively, hereinafter referred to as the "Project" and to be defined later in this report) as at 31 December 2007 (hereinafter referred to as the "Relevant Date") for the Company's internal management reference purpose and to incorporate the same into a circular for the Company's shareholders' reference.

We understand that the management of the Company will use our work product as part of its business due diligence and we have not been engaged to make specific sale or purchase recommendations. We further understand that the management of the Company will not rely solely on our work, and that the use of our work product will not supplant other due diligence which the management of the Company should conduct in reaching its business decision with regards to the Project.

Our findings and conclusion in this agreed-upon procedures evaluation are summarised as follows:

INTRODUCTION

The Project comprises a supply agreement dated 19 December 2007 (hereinafter referred to as the "Supply Agreement") relating to a Target Mine and an exploration rights of a parcel of land situated at Dagangba Area, Santaishan, Mangshi, Dehong Dai and Jingpo Autonomous Prefecture, Yunnan Province, the People's Republic of China (hereinafter referred to as the "PRC" or "China").

The ores as mentioned in the Supply Agreement are coming from the Maiwoba and Guoyuan Mine Sections (hereinafter referred to as the "Target Mine"), Upper Manggang Mine Field (See Note 1). There are three leaching pad areas situated in the Target Mine.

The exploration rights is attached to a parcel of land, with the Target Mine being enclosed at its northwestern part, and known as the Dagangba Area (hereinafter referred to as the "Exploration Area" and collectively, hereinafter together with the Target Mine referred to as the "Dagangba Property"). The Dagangba Property previously known as the Mengdan Area and covered portion of the Upper Manggang Mine Field on its west to northwestern part. The Universal Transverse Mercator (or UTM and see Note 2) coordinates of the Dagangba Property are:

	X	Y
1.	2692409.046	33434453.657
2.	2692384.582	33459951.229
3.	2691461.508	33439947.301
4.	2691454.413	33441638.965
5.	2692377.486	33441642.782
6.	2692360.632	33445871.650
7.	2680360.828	33445825.720
8.	2680403.264	33435667.788
9.	2683172.467	33435680.354
10.	2683164.883	33437373.021
11.	2689164.842	33437399.572
12.	2689178.269	33434438.660

The Dagangba Property is located at the western part of Yunnan Province, the PRC at Longitude: 98º21'15" to 98º28'00" and Latitude 24º13'30" to 24º20'00", at the southeastern part of Luxi City, about 35km (kilometers) away from the urban area. It is located at the southwest side of transversal mountain-range, lying high in northeast and low in southwest. Highest elevation is 2,339 m (meters), and lowest elevation 866 m. Physiognomy cutting is quite fierce, and relative relief is 1,473 m.

Note: *1.* A roughly rectangular shape site lying from Longitude 98º19'09" – 98º24'27" and Latitude 24º15'42" – 24º20'23", and having a site area of approximately 22 sq. km.

2. The UTM system is tied to Latitude and Longitude, but because it is a grid system, it is easier to work with in locating points and tying them to each other on a map by using the x-coordinate and y-coordinate.

The Target Mine comprises two mine sections, namely Maiwoba Mine Section and Guoyuan Mine Section, and having an area of approximately 0.43 sq. km. The Target Mine also known as 核工業二〇九芒市金礦 and translated as Nuclear Industry 209 Mangshi Gold Mine (or simply known as Upper Manggang Gold Mine) under a Mining Operation Permit dated 23 September 1999 at No. 5300009940016 for a period of 10 years, from 23 September 1999 to 23 September 2009 (both dates inclusive) and granted by the Department of Land and Resources of Yunnan Province, the PRC. The legally interested party in the Mining Operation Permit is 潞西市核工業二〇九芒市金礦有限公司 and translated as Luxi City Nuclear Industry 209 Mangshi Gold Mine Company Limited (hereinafter referred to as the "MG Mining Company"). Under this permit, the mining technique was restricted to open pit mining with an annual production of 20,000 tonnes.

At the time of the inspection to the Target Mine, there contained an active open pit gold mine in the Guoyuan Mine Section, and there also a pit on the Maiwoba Mine Section had been idled for some years. The mine sections are defined by the Universal Transverse Mercator grid coordinates of their corners, as follows:

	X-Coordinate	**Y-Coordinate**
Maiwoba Section		
Corner #1	2,689,750.00	33,435,470.00
Corner #2	2,690,207.50	33,435,712.50
Corner #3	2,690,410.00	33,435,980.00
Corner #4	2,690,270.00	33,436,180.00
Corner #5	2,689,600.00	33,435,570.00
Guoyuan Section		
Corner #6	2,691,144.20	33,436,886.40
Corner #7	2,691,078.40	33,437,005.00
Corner #8	2,690,717.00	33,436,519.30
Corner #9	2,360,560.00	33,436,516.00
Corner #10	2,690,427.00	33,436,274.60
Corner #11	2,690,466.00	33,436,247.80
Corner #12	2,690,772.00	33,436,267.00
Corner #13	2,690,977.50	33,436,417.50
Corner #14	2,691,056.10	33,436,526.40
Corner #15	2,691,141.00	33,436,800.00

The mining rights conveyed for the Maiwoba Mine Section are confined to the vertical interval lying between the elevations of 1,060 and 1,290 meters above mean sea level. For the Guoyuan Mine Section, the mining rights are confined to the vertical interval lying between the elevations of 1,110 and 1,300 meters above mean sea level. The Mine is approximately 35 kilometers to the southwest of Luxi City and approximately 25 kilometers southwest of Dehong Airport. Direct access to the Mine is provided by an approximate five kilometers gravel road.

According to the Supply Agreement, MG Mining Company was contracted to supply exclusively the gold ores that mined from the Target Mine to 雲南西部礦業有限公司 (Yunnan Western Mining Company Limited (hereinafter referred to as the "CJV") with the first year not less than 1.50 million tonnes, the second year not less than 2.25 million tonnes and the third year not less than 3 million tonnes and its extension.

The Exploration Area with an area of approximately 113.96 sq. km. (square kilometers), and enclosed the Target Mine at its northwestern part, is subject to an Exploration Permit dated 22 April 2008 at No. T53120080402005958. The permit was granted by the Department of Land and Resources of Yunnan Province, the PRC to the CJV and valid from 22 April 2008 to 22 April 2010. The exploration team responsible to the exploration work was designated to 雲南省核工業二〇九地質大隊 and translated as Geologic Team 209 of Yunnan Province Nuclear Industry (hereinafter referred to as the "PRC Partner").

We are given to understand that the current leaching pad areas are operating by MG Mining Company while the CJV will operate its own leaching pad areas in the Exploration Area in the future.

We were further given to understand that the CJV is a sino-foreign co-operative joint venture established by China Mining Group Investment Limited and the PRC Partner with limited liability.

The CJV was established in the PRC on 14 May 2004 with a registered capital of US$3.01 million. According to a 企業法人營業執照 Enterprise Legal Person Business License No. 530000400001459 dated 10 December 2007, the operation term of the company was 25 years from 14 May 2004 to 13 May 2029. The business scope of the CJV was restricted to "在獲取探礦權和勘查權的地塊內進行金，多金屬礦業的風險勘查。(以上經營範圍中涉及國家法律、行政法律的專項審批，按審批的項目和時限開展經營活動)" translated as "exploration of gold and metallic minerals within the area covered by relevant exploration rights. (Should the allowable business require special approval in accordance with the rules and regulations in China, such rules and regulation must observe". The registered office of the CJV is situated at 昆明市東風西路182號314室 and translated as Room 314, No. 182 Dong Feng Xi Road, Kunming City.

OUR INSTRUCTIONS TO THIS ENGAGEMENT

At the instruction of the management of the Company, we were retained to analyse and prepare an agreed-upon procedures project evaluation report to evaluate the financial Net Present Value of the Project as proposed in a business plan titled "Yunnan Western Mining Company Limited Mangshi Gold Mine Business Plan" dated 19 December 2007 and its supplementary information (collectively, hereinafter referred to as the "Business Plan") provided by the management of the Company. As instructed, our work was based on the Business Plan with a geology report attachment titled "Yunnan Province Luxi City, Mt. Santai, Mengdan Area Gold Mine General Investigation Report" prepared by the PRC Partner in 2005, and a geology report titled "Yunnan Province Luxi County, Upper Manggang Area Gold Mine General Investigation Report" prepared by the Second Team of the Yunnan Province Nuclear Engineering Industry in 2006 (collectively, hereinafter referred to as the "Geology Reports").

PROCEDURES TO EVALUATE

In performing our work, we have adopted the following procedures which were agreed with the management of the Company before the engagement. They were:

- To prepare and submit a list(s) of required documents and information regarding the Project during the course of evaluation. The completeness of our evaluation depends on the availability of the required information being supplied by the management of the Company or its appointed personnel.

- To read and based on the content of the supplied Business Plan and Geology Reports, such as mineral resources estimation, product information, market information, financial information, and its related materials such as exploration program, explanatory statements and relevant correspondence, to arrive at our conclusion. In the course of our evaluation, we will assume that the information provided in the materials is correct and we will only verify the information when and where possible. However, we will not ascertain the correctness of the information contained in the materials like an auditor in giving an audit opinion.

- To hold discussions with relevant personnel in order to have a better understanding of the Project.

- To conduct a limited scope of physical inspection to the Target Mine and to give us an understanding of the general environment of the existing mining area. The purpose of the inspection is not to have a full scope investigation on the quantity and the quality of the subjects as contained in the Business Plan and the Geology Reports; rather, it is designed to give the valuer a better understanding of the subjects as contained in both documents.

- To conduct appropriate research and technical consultation in order to obtain sufficient information to arrive at our conclusion. The extent of research and consultation is at our discretion.

- To evaluate the financial Net Present Value of the Project using the appropriate method(s).

- To document our findings in our project evaluation report.

THE BASIS OF EVALUATION AND ASSUMPTIONS

The Project is evaluated on the basis of continued use and as part of a going concern business of a business enterprise *(see Note)* i.e. the CJV. The continued use premise assumes that the Project will be used for the purpose for which it was conceived or is currently carried out.

Our evaluation has been made on the assumption that, as at the Relevant Date,

1. the legally interested parties in the Project have free and uninterrupted rights to use or assign the interests of the Project for the whole of the unexpired terms as granted and any premiums/administrative costs payable have already been fully paid;

2. the subsequent mining operations at the Mine and the exploration works in the Exploration Area will confirm the quality and quantity expected in the Business Plan and the Geology Reports;

3. the subject Mining Operation Permit is able to renew after April 2010 from time to time in order to achieve the planned extraction phase, say 10 years;

4. the relevant Enterprise Legal Person Business License and/or business registration documents (including Tax Registration Certificate) are able to be renewed after their expiration from time to time in order to achieve the planned extraction phase;

5. the legally interested parties in the Project successfully completed the exploration program and obtained the expected result within the scheduled time frame;

6. the legally interested party in the Exploration Permit is able to obtain, upon completion of the exploration program and successfully achieved the expected result, the mining right for a term of 10 years from the relevant authorities in China;

7. the subsequent feasibility studies and governmental endorsement confirmed the quality and quantity discovered during the mine development stage under various reserve classification commonly adopt in the world or in China (the Solid Minerals Resource Classification (GB/T17766-1999));

8. all required licenses, certificates, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organisation have been or can readily be obtained or renewed or replaced on which the evaluation contained in our report are based;

Note: A business enterprise is defined as a commercial, industrial, service, or investment entity, or a combination thereof, pursuing an economic activity.

9. the legally interested parties in the Project successfully raise fund to finance and to develop the Project as planned, and is able to transport and to sell the predicted products to its clientele at market price as projected;

10. the Project successfully yielded the economic benefits as projected in the Business Plan;

11. the prospective earnings would provide a reasonable return to the legally interested parties in the Project and that the legally interested parties in the Project have adequate working capital to implement the scheduled exploration program, the mining operations and the operation of the processing areas from time to time;

12. the legally interested parties in the Project have the rights to transport, produce and sell the extracted minerals and its products after processing to the market, both locally and internationally;

13. the legally interested parties in the Project have 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 serious statutory mining safety measures, geologic formation structurally deformed, soil erosion and other types of unexpected accidence) to the scheduled exploration program and mining operations; and

14. the Project, as part of a going concern business of the legally interested party in the Project, 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 government.

Should this not be the case, it will have an adverse impact to the reported findings and conclusion herein.

MATTERS THAT MIGHT AFFECT THE EVALUATION

We noted that the exploration portion of the Project is at a preliminary stage in accordance with the China exploration standard, it is emphasised that in the absence of any endorsed feasibility study report or reserve estimation report under any recognised mineral resource and reserve classification systems *(see Note)* commonly adopt in the world by the relevant authorities as at the date of this report, our work is preliminary in nature and suitable only for making a reference as to whether the Business Plan, if successful, will yield the economic benefit to the interested party in the Project subject to the known facts and hypothesises as contained in the above documents. We need to state

Note: Such as the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, prepared by The Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia, generally known as the JORC Code, the United Nations International Framework Classification for Fossil Energy and Mineral Resources, and other systems commonly encountered in the mining industry include those of the London Stock Exchange's Chapter 19, the U.S. Securities and Exchange Commission's Industry Guide, and the U.S. Geological Survey's Circular 891.

that this report is not a detailed evaluation of the feasibility of developing a mine and its subsequent processing areas as proposed in the Business Plan; rather, it is an objective evaluation of the financial Net Present Value of the Project as proposed in the Business Plan and the Geology Reports.

In the course of evaluation, we have assumed that the Project is able to implement without any legal impediment (especially from the regulators). Should this not be the case, it will affect the reported conclusion significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

INDUSTRY AND MARKET OVERVIEW *(SEE NOTE)*

A. The Economic Outlook of China

The economy of China is the fourth largest in the world when measured by nominal GDP (Gross Domestic Product). Its economic output for 2006 was US$2.68 trillion. The GDP growth of China for last year was 11.40%. With the strong growth of China's economy at a compound annual growth rate (CAGR) of approximately 10.25% from 1990 to 2007, it is expected that the China economic growth would remain at 8.5% to 9% from 2008 to 2011. Due to large scale investments both from domestic and foreign companies, China's booming economy has consistently overshot government targets in recent years. Economists further estimated that the 2008 Olympic Games in Beijing would benefit China's national GDP by an additional one per cent. Therefore, the overall prospects of the Chinese economy are favourable in the next few years.

For Yunnan Province, despite of the Macro Regulation and Control from the Chinese government, the growth rate of the GDP in 2005 was about 9% and the growth rate in 2006 was 11.9%. The following table listed out the development trend of GDP of Yunnan Province in recent years (as at the end of each year).

Year	**2002**	**2003**	**2004**	**2005**	**2006**
GDP Growth (%)	8.1	8.6	11.5	9	11.9

Source: from National Bureau of Statistics of China

Note: The information provided in this section relating to the mining industry and market is derived in part or extracted or referred to from various official and unofficial sources. The official sources include various quasi-governmental or world organisation websites (such as gov.cn, National Bureau of Statistics of China and World Bank). The unofficial sources include information provided by the management of the Company, various websites (include steel35.com, asianmetal.cn, cnmn.com.cn, alibaba.com.cn, fenmoyejin.com, Bloomberg.com, en.wikipedia.org and Yahoo! Finance), newspapers, research reports and journals (such as U.S. Geological Survey) from various industry practitioners or analysts. We need to state that such official and unofficial information have not been prepared or independently verified by us, and may not be consistent with other information complied within or outside China. None of our staff involved in preparing this report make any representation as to the correctness or accuracy of such information and accordingly such information should not be unduly relied upon. The readers should conduct his/her due diligence with regard to the correctness and accuracy of such information for his/her own use. Unless otherwise stated, the copyrights belongs to the relevant publishers/authors, under no circumstances the readers are encouraged to infringe the copyrights of the said publishers/authors.

B. The Mining Industry

Mining is a very risky business and the initial work which needs to be carried out in order to find and prove up a deposit will, mores often than not, prove it to be uneconomic rather than profitable to exploit. Exploration can be split into two separate parts — one is to find a new mine in the vicinity of an old one, the other is built from scratch by deciding what geological environments are most likely to contain the mineral which is being sought then to be followed by reading through literature to find where those environments are to be found and then sending out an exploration team to test the hypothesis.

All mining activity takes place within the earth's crust, about the top 7-35 km of the solid matter comprising the bulk of the planet. However, the distribution of metals within the crust is by no means uniform, as can be seen by the differences in the types of rock which it contains, be it limestone, granite, sandstone or basalt. Nevertheless, these different rock types are generally of uniform composition, at least locally, and further concentrations need to occur in order to produce concentrations of materials which can be mined and sold at a profit. Such concentrations decided whether a mineral deposit is economically worth to extract or not. There are some generally accepted background concentrations of the major metallic elements and the concentration factors required for economic viability identified by some industry practitioners such as Charles Kernot (1999). These concentration factors are only of importance for the metals because of the geological controls on their formation.

Metal deposits are categorised both in terms of the metals which they contain and the controls on their origin which governs their three dimensional shape. The metals themselves are deemed to be either ferrous (containing iron) or non-ferrous. Non-ferrous metals are, in turn, subdivided into those which are precious, base or minor. The precious metals are essentially limited to gold, platinum and silver as these metals are relatively rare, but have great demand and widely traded.

Since 1998, when the Chinese government issued the laws regulating exploration and mining rights, operating a mining business in China must first obtain those rights from the government with a price. The business was considered to be opened to foreign investors in 2003 when the Chinese government allowed the transfer of the mining rights to all kinds of entities. It is now easier and mores secure than ever for these foreign mining companies to operate in China. Apart from the above, several measures have also been taken to encourage foreign investment and participation in developing China's mining industry by the government. These measures include the privatisation of the mining sector, streamlining of permitting and approval processes, granting irrevocable exclusive mining rights to foreign entities and relaxing rules on repatriation of capital profit. These measures benefit not only the foreign investors but also the local miners in that the cost of mining can be reduced and thus mores profit can be generated.

C. The Outlook of Gold Market

Gold is one of the most well known metals in the world. It may have been the first metal used by humans. It occurs as nuggets or grains in rocks, underground "veins" and in alluvial deposits. Since the 1880s, South Africa has been the source for a large proportion of the world's gold supply, with about 50% of all gold ever produced having come from South Africa. At its highest in 1970, the production of gold from South Africa accounted for 79% of the world supply, producing about 1,000 tons. The other major producers are United States, Australia, China, Russia and Peru. The world's oceans also hold a vast amount of gold, however in very low concentrations.

The table below gives the figures for the world production of gold in recent years.

Year	**2002**	**2003**	**2004**	**2005**	**2006**
Production (in metric tons of gold content)	298	277	258	256	260

Source: U.S. Geological Survey, Mineral Commodity Summaries

Due to the strengthening of the South African currency, rand, several gold mines in South Africa had to curtail expansion operations and reduce gold production. In the United States, domestic mine output continued to be dominated by Nevada, where production accounted for about 82% of the U.S. total. In a recent assessment of U.S. gold resources, 33,000 tons of gold in identified and undiscovered resources. However, the gold resources in the U.S. are only a small portion of global gold resources.

China's gold production has risen significantly in recent years to an output of over 200 tons per year. It ranks fourth largest producer of gold in the world. Most of China's production comes from small, underground mines working vein deposits with little mechanisation or infrastructure. There are thought to be over 1,000 small to medium-sized mines in operation throughout the country with the average mine producing in the region of 16 koz/y.

Historically, gold has been considered one of the safest investments in the world. It is unusual in that it is both a commodity and a monetary asset. All the gold that has ever been mined still exists above ground in some form or another and the majority of above-ground stocks could easily be mobilised. Therefore, any upward movement of price is often met by the resale of above-ground stock. This is one of the reasons why the gold price is historically less volatile than most of the other commodity prices. Annual demand for gold falls into three main categories with the jewelry market being the largest which was worth $40 billion in 2005. The other two categories are industrial demand in the electronic sector and investment demand.

Up to end of December 2007, gold prices are up to more than US$833 an ounce, partly helped by the declining dollar and growing interest from institutional investors. Many analysts say the biggest driving factor has been the weakening dollar. The outlook for the gold price is optimistic and rising. The chart below showing the growth of gold price in the last ten years from 1997.

Sources: www.bitco.com

THE PROJECT DESCRIPTION *(SEE NOTE)*

A. Status

The Dagangba Property is located at the western part of Yunnan Province at Longitude: 98º21'15" to 98º28'00" and Latitude 24º13'30" to 24º20'00", at the southeastern part of Luxi City, about 35km away from the urban area. The Dagangba Property has a total site area of approximately 114.39 sq. km. (of which 113.96 sq. km. attributable to the Exploration Area and 0.43 sq. km. attributable to the Target Mine).

It is located at the southwest side of transversal mountain-range, lying high in northeast and low in southwest. Highest elevation is 2,339 m, and lowest elevation 866 m. Physiognomy cutting is quite fierce, and relative relief is 1,473 m.

The area belongs to south sub-tropic monsoon climate, distinctly dry and wet, and with long period sunlight exposure. Frostless period reaches over 300 days each year, average history atmospheric temperature is 19.5ºC, highest temperature 35.7ºC in summer, and lowest temperature 0.7ºC in winter. Annual average precipitation is 1651.4 mm. Rainy season usually starts from May and ends October and drought season is from November to May next year.

Note: Sources from the Business Plan and Geology Reports.

At the time of inspection to the Target Mine, a pit on the Maiwoba Mine Section had been idled for some years, with a pit on the Guoyuan Mine Section being the current source of production.

The Target Mine, which was developed on a small scale in 1995, extracts ore from an open pit using hydraulic excavators, wheel loaders, and bulldozers. The Target Mine was brought to its current extraction level of around 300,000 tonnes of ore a year in 2001. The Target Mine is extracting lateritic clay-like material that contains microscopic particles of gold with minor silver content. Upon extraction, ore is transported by truck to a nearby processing complex, where the gold is extracted using heap leaching and carbon-in-column ("CIC") processing plants. Cyanide solution is used in the leaching process, followed by chlorine neutralization of the pile. Three heap leach piles are used, two of which have five CIC vessels with the remainder having a six-vessel plant. Charcoal is used in the CIC vessels to capture gold and silver from the pregnant solutions derived from heap leaching.

There were two documents covered the prospects of the Exploration Area, they were: (i.) Contract on Geological Prospecting of Mineral Resources between Yunnan Western Mining Industry Ltd, and Yunnan Baichuan Resources Ltd., dated 5 January 2008 (hereinafter referred to as the "Prospecting Contract"); and, (ii.) Application Report of Accelerating Prospecting of Mengdan, Santaishan, Mangshi, prepared by the Second Team of Yunnan Geological Team of Nuclear Industry, with a covered page dated July 2006 (hereinafter referred to as the "Application Report").

The Application Report provides a generalized discussion of area geology and contains discussions in support of the thesis that the Exploration Area is prospective for Carlin-like gold deposits. Notably absent from the Application Report provided was any exploration data such as maps, geochemistry, geophysics, and the results of test pits and trenching. We noted that the Application Report stated "特別是麥窩壩礦段，有一條金礦化著切帶，該帶現已控制長度大於3000米，一般寬度100-300米，平均寬度230米，其礦化特徵為美國卡林型金礦極為相似，他們具有相同的物質來源和成因模式，因此，在該區應該存在著大型的卡林型金礦，估計遠景儲量大於60噸，有望突破100噸。" and translated as "In particular, there is a gold mineralization shear zone in Maiwoba ore block. The controlled length of the zone is more than 3,000 meters, the general width 100-300 metres, and the average width 230 meters, which is very similar to American Carlin-type goldmine in mineralization characteristics with same substance sources and genetic models. Therefore, large-scale Carlin-type goldmine exists in this area, which is estimated to have more than 60 tonnes of prospective reserve, and is expected to exceed 100 tonnes".

In light of that, the CJV entered into the Prospecting Contract to engage a local geological exploration company to start the exploration work in the Exploration Area from 8 January 2008 to 7 January 2009.

B. Geology Characteristics

The Dagangba Property lies in the southwestern part of a series of broken mountain ranges, with surface elevations in the area ranging from around 865 meters above sea level to around 2,340 meters above sea level. Surface elevations generally increase from northeast to southwest.

Structure – The Dagangba Property lies to the southeast of the Longling-Ruili thrust fault in a zone of smaller faults collectively known as the Upper Manggang Fault Zone. The Upper Manggang Fault Zone, which trends northeast, is comprised of several high-angle structures. Individual faults within this zone exhibit mylonitic and boudin structures, breccias, clay and silica alteration.

The Paper Mill fault, the most northwesterly of these faults, forms the boundary between the Jurassic Mengge Formation on its hanging wall and the Triassic Nanshu Dam Formation to the north. The Paper Mill fault is described as a high-angle reverse fault at depth that flattens at the surface. However, the juxtaposition of a younger hanging wall over older footwall rocks suggests that the Paper Mill fault is actually a normal fault.

The north-dipping Lower Manggang fault juxtaposes the Permian Shazi Slope Formation on the footwall side against the Mengge Formation on its hanging wall. The Upper Manggang fault is described as a reverse fault in text, yet both maps and cross sections clearly show it to be a normal fault.

Further south, the Lower Manggang and Hule faults are roughly parallel to the Upper Manggang fault. The Lower and Upper Manggang faults are considered by Chinese geologists to be the principle ore conduits.

Stratigraphy – The stratigraphy of the Dagangba Property consists of the Jurassic Mengge Formation, the Permian Shazi Slope Formation and the Triassic Nanshu Dam Formation. Nearly all of the mine benches and most road cuts were developed in either saprolite or in the Permian Shazi Slope Formation.

The dominant rock types of the Shazi Slope formation on the Dagangba Property are medium-bedded, clean dolomites and limestones. Stratigraphic units favorable for Carlin-style replacement mineralization such as shaly carbonates and calcareous shales are uncommon. The Shazi Slope Formation hosts most of the hypogene gold mineralization at the Mine.

The geologic reports provided state that the middle member of the Mengge Formation hosts gold mineralization, although the maps and the stratigraphic section provided indicate that the lower member hosts mineralization.

C. Ore Bodies Characteristics

It is believed that gold mineralization at the Dagangba Property occurs in two distinct modes – hypogene and supergene. Hypogene mineralization is found in bedrock and contains sulfide minerals. It is the hard, unweathered precursor of the overlying supergene mineralization. Supergene mineralization is defined as the chemically weathered portion of an ore body. Such deposits typically contain iron and manganese oxide minerals and are softer than the parent hypogene mineralization. At the Dagangba Property, virtually all of the historic production and reserves are within supergene mineralization.

Hypogene Mineralization – Hypogene gold mineralization and alteration are structurally controlled by the Upper Manggang Fault Zone. Chinese geologists propose that the mineralization is localized on a releasing bend with right lateral displacement. The regional tectonic map of China shows that the present day shear sense is left lateral. The location of mineralization on a leftward jog on the Upper Manggang Fault Zone is also suggestive of left lateral displacement. The presence of grabens and normal faulting suggest that mineralization is hosted within a negative flower structure. This is consistent with the Chinese dilation model.

Mineralized structures tend to be thin, generally less than a meter where observed in outcrop. In the Guoyuan area, quartz stockwork veining extends into wall rock for about one meter. Quartz stockwork and breccias appear to be more common in the Maiwoba area.

Hypogene mineralization has been identified in two geologic units-the middle unit of the Mengge formation and the Shanzi Slope formation. Mineralization in both formations is localized by faults and is associated with gouges, breccias, and fracturing. Sericite and clay alteration are common within the middle unit of the Mengge formation, but rare in the carbonates (principally dolomite) of the Shazi Slope formation.

Stibnite, arsenopyrite and cinnabar are reported as accessory minerals. One small area in the Guoyuan zone was sufficiently rich in stibnite to warrant limited mining. Anomalous arsenic (As), barium (Ba), and lead (Pb) are also reported.

Team 209 identified five geochemical anomalies, designated I through V, which it believed merited follow-up at the northwestern part of Dagangba Property. These anomalies, which are defined by the presence of gold (Au) with or without Arsenic (As), copper (Cu), silver (Ag), mercury (Hg), antimony (Sb),and Lead (Pb), are as follows:

No. I – Mengdian-Yangshi Mount area.
No. II – Yangshi Mount-Guangling Slope area.
No. III – Upper Manggang Village area.
No. IV – Maiwoba.
No. V – Guoyuan – Mulingba.

Argillitic alteration is present in argillaceous Mengge Formation units adjacent to faults. Carbonate-dominated Shazi Slope Formation units, although not argillitized, are often bleached and silicified adjacent to faults. Team 209 reports that alteration associated with gold mineralization includes sericite, clay, silification (including jasperoid), and pyrite. Hematite was also listed as an alteration mineral but its occurrence appears completely secondary and is restricted to the saprolite.

Silicification, brecciation, and quartz and carbonate stockwork veining adjacent to faults exposed in pit walls and road cuts were evident. Although no jasperoids were observed, drusy quartz was not uncommon in veinlets. Silicified rock is reported to be low in gold content.

The hypogene potential of the Target Mine is largely unexplored, with the vast majority of the test pits and trenching focused exclusively on defining the oxide gold resource. There has been no systematic drilling or exploration of the bedrock gold potential and very limited mining. Most road cuts and mine benches in bedrock appear to be unsampled. The exception to this is the Maiwoba Mine Section, where a small pit was mined in black silicified carbonaceous pyritized limestone along the Upper Manggang Zone. A sample from this material assayed 3.04 grams per tonne (g/t) of gold. This area is very interesting and a number of samples containing more than 1 g/t of gold were taken in nearby road cuts.

It is very likely that the hypogene mineralization will be lower grade and metallurgically more difficult to process than the supergene mineralization. There are two reasons for this. Firstly, because gold is associated with pyrite, and possibly other sulfides, in this deposit, some or all of may be encapsulated within the sulfide mineral grains and thus be unavailable to cyanide leaching. As the sulfides oxidize to iron oxides, such as hematite, limonite, and goethite, during weathering the encapsulated gold becomes more readily accessible to cyanide leaching. Secondly, chemical weathering during saprolite formation reduces the mass of rock by leaching soluble elements such as calcium (Ca), magnesium (Mg), potassium (K), and sodium (Na). The effect of this is to enrich the saprolite with non-soluble elements such as silicon (Si), aluminum (Al), iron (Fe), and gold (Au). Such occurrences are extremely common.

Supergene Mineralization – Supergene gold mineralization is restricted to a thin veneer of saprolite, typically less than five meters thick, that is developed above hypogene mineralization. To-date, nearly all mining on the Dagangba Property has been of this oxide ore. The saprolite averages between one and ten meters in thickness, with the average likely being less than five meters. The saprolite-bedrock contact is sharp, with at most only about 0.5 meter of weathered (bleached and sanded), decomposed carbonate bedrock separating the saprolite from relatively pristine carbonate bedrock.

The saprolite-bedrock contact is also highly irregular and apparently unpredictable, such that a structure contour on the bedrock surface would show steep sided spires and deep valleys. This would result in an extremely irregular isopach map of the saprolite.

Faults localizing quart veins, silicification, and stock work are present. In places, these appear to localize some of the steep sided bedrock 'valleys'.

Intrusive rocks – A small dike-like body of quartz monzonite (?) porphyry occurs in the area. No skarn minerals or hornfels are developed at the carbonate-intrusive contact, nor is the dike mineralized except for some hairline quartz veinlets. The feldspars are chalky, but this may be the result of weathering as much as to weak argillitic alteration.

Mineralized Areas – Mineralization is localized by the northeast-trending Upper Manggang fault, along which three mineralized areas have been identified. These have been designated as follows from northeast to southwest:

- Guoyuan Mine Section
- Maiwoba Mine Section
- Guanglingpo Area

The Guoyuan Mine Section contains stibnite (antimony sulfide) deposits of sufficiently high grade to have supported hand-sorting and shipment as a by-product during gold mining. It is not known if the gold was associated with the stibnite mineralization. It is this area, which is part of the Dagangba Property, in which active mining is occurring.

The Maiwoba Mine Section, which has a history of mining, has produced around 49,000 ounces of Au. There has been no production from this area, which is part of the Dagangba Property, for some time.

The Guanglingpo Area has produced more than 200,000 ounces of Au, making it about four times as large as the Guoyuan and Maiwoba areas combined. This area, which is not in the Dagangba Property, was not included in the evaluation.

Mining of the ores in the Target Mine will be carried out in the open pit. According to the Business Plan, in the first year of mining, approximately 2,000,000 grams of gold will be mined. In the second year, the third year, the forth year, the fifth year and thereafter, 3,000,000 grams, 4,000,000 grams, 6,000,000 grams and 8,000,000 grams will be mined.

Currently there are three functional heap leach areas in the Target Mine, each with its own CIC processing plant. Upon completion of the leaching process followed by the chlorine neutralization step and then allowing the pile to drain, brings the process to its final stage, namely clearing the pad of leached material, or tailings. This is a truck and excavator operation involving disposal of the leached material in the tailing area mentioned above.

All during the leaching process pregnant solution from a pile is processed in the CIC plant associated with that pile. Two of the plants have five vessels, while Pad #3, the largest pile, has a six-vessel plant. Each pressure vessel is loaded with 300 kgs of activated charcoal and the pregnant solution is pumped through the vessel under high pressure with the gold and silver depositing on the carbon particles, and the solution, containing residual gold and silver is then recirculated with the addition of cyanide to repeat the leaching process. Clean, new charcoal becomes saturated in about 18 days; recycled charcoal requires about half this time to become "loaded", but is less efficient in recovering precious metals. The normal process is to burn the loaded charcoal to recover precious metal content quicker.

There are three leach pad areas ranging in size from larger than 70,000 cubic meters up to 110,000 cubic meters at an estimated density of one cubic meter equals one tonne.

According to the Business Plan, the CJV is planning to construct additional 20 processing plants between the first five years of operation to cater for the extraction of gold resources in the whole area covered by the Exploration Permit.

Together, the Supply Agreement, and the Exploration Area with future 20 processing plants form the subject of the Project as part of a going concern business of the CJV. As at the date of this report, no detailed construction or development schedule of future mining or processing plants were made available to us for inspection, thus, our work depends solely on the advices given by the management of the Company and the documents provided to us.

We were further advised that the CJV plans to spend around RMB112.4 million in exploration and mining works in the Exploration Area.

ESTABLISHMENT OF TITLES

Due to the purpose of this engagement, the management of the Company is requested to provide us the necessary documents to support that the legally interested parties in the Project have free and uninterrupted rights to assign the Project (or a part of it) free of all encumbrances and any premiums payable have already been paid in full. Should this not be the case or only a restricted title was available (i.e. has a right to use but further application procedures are required), no commercial value will be assigned to the Project.

We have been provided with copy of the legal opinion dated 10 May 2008 issued by北京市嘉源律師事務所Jiayuan Law Firm, lawyers qualified to practice in China (the ''Legal Opinion''). According to the Legal Opinion, the CJV has obtained full legal and beneficial title free from all encumbrances in respect of the Project granted under an Exploration Permit dated 22 April 2008 and issued by the Department of Land and Resources of Yunnan Province.

However, we have not inspected the original documents that filed in the relevant local authorities to verify ownership or to verify any amendment which may not appear on the copies handed to us. We are not attorney of laws by nature, thus we are unable to ascertain the titles and to report any encumbrances that may be registered against the Project. However, we have complied with the requirements as stated in 8.09 of Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market and relied solely on the copy of the Legal Opinion with regard to the existing legally interested parties in the Project. No responsibility and liability is assumed in relation to those opinions or copies of documents.

Due to inherent defects in the land registration system of China, we are unable to inspect the original documents from the relevant land registration departments to verify the existing titles of or any material encumbrances that might be attached to the land related subjects in the Project. We are not in the legal profession, thus we are unable to ascertain the titles and to report any encumbrances that may be registered against the land related subjects in the Project.

We further emphasised that we are unable to, or not in the position of, opining or commenting on the legal procedures and time to be required to achieve the final goal of the Project. No responsibility or liability is assumed.

INSPECTIONS AND INVESTIGATIONS OF THE DAGANGBA PROPERTY

We have, when and where possible, conducted a limited scope of inspections of the Target Mine, in particular the mining area in respect of which we have been provided with such information as we have requested for the purpose of our evaluation. During our on site inspection conducted in September 2007, we noticed that there were mining activities and three leaching padareas were under operation on the Target Mine. In the course of evaluation, we have relied solely on the information provided by the management of the Company and its appointed personnel. No verification from our part is assumed.

Due to the agreed-upon procedures basis, we were unable to inspect those parts which were covered, unexposed, inaccessible or not being arranged for inspection. We cannot express an opinion about or advice upon the condition of the Dagangba Property and our report should not be taken as making any implied representation or statement about the conditions of the Dagangba Property. We did not conduct any structural survey, drilling, sampling, investigation, test or examination, or any means of geological test or assay or engineering or survey in the Dagangba Property. No tests were carried out to any utilities (if any) and we are unable to identify those utilities covered, unexposed or inaccessible.

It is emphasised that the inspection and the use of our report do not purport to be a conditional survey of the Dagangba Property, in particular the Target Mine. We have assumed that the Dagangba Property is free of rot and inherent danger or serious geologic formation structurally deformed and soil erosion. We were given to understand that the management of the Company has employed various technical consultants to advise them on this area.

As agreed, the purpose of the inspection is not to have a full scope investigation on the quantity and the quality of the Dagangba Property; rather, it is designed to give us a better understanding of the Dagangba Property 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 Dagangba Property, but have assumed that the figures shown on the documents and handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to work did not include an independent land survey to verify the legal boundaries and the exact location of the Dagangba Property. We need to state that we are not in the land survey profession in China, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries and location of the Dagangba Property that appeared on the documents handed to us. No responsibility from our part is assumed.

FACTORS CONSIDERED IN THE EVALUATION

Unless otherwise stated, the evaluation of the Project has taken account of all pertinent factors affecting the Project and its ability, if successful, to generate future investment returns as part of a going concern business of the legally interested parties in the Project. The factors considered in the evaluation included, but were not limited to, the following:

- the nature and the characteristics of the Project, including the historical background and the ground work for the Project;
- the use of the Project as part of a going concern business of the CJV;
- the initial life of the Project, as advised in the Business Plan, i.e. 10 years from 2008 onwards;
- the cost and financial information as contained in the Business Plan;
- technical evaluation of the mining portion of the Project;
- business advices of the product processing portion of the Project;
- projected future results in the Business Plan based on assumptions made by the appointed personnel from the Company;
- the nature of the exploration rights and the mining rights such as the remaining life and its characteristics;
- the effectiveness of the Supply Agreement;
- the nature and the going concern business of the CJV in the Project;
- the quality of the mining facilities (including the proposed);
- the capability of the legally interested parties in the Project to raise fund to finance the exploration program, the construction of the mine and its subsequent operations;
- the capability and determination of the legally interested parties in the Project to follow the planned development schedule in the Business Plan;
- the capability and determination of the legally interested parties in the Project to continue the proposed marketing strategy of its predicted by-products, if successful;

- the capability and determination of the legally interested parties in the Project to construct and implement the scheduled production process to produce relevant products to attract customers as predicted;
- the capability and determination of the legally interested parties in the Project to follow the government and industry management quality standards and to review/up-lift its standards to catch the industry need from time to time;
- the capability and determination of the legally interested parties in the Project to protect its mining operations, if successful, against any disruption of the normal operation of the mine (including the future mines);
- the capability and determination of the legally interested parties in the Project to maintain a cost effective and stable supply chain of the materials to produce its predicted products;
- the capability and determination of the legally interested parties in the Project to maintain an experienced management team as part of its going concern business;
- the economic and industry data affecting the Project and the mining industry in China;
- the market-derived investment returns of similar business; and,
- the risks facing the operations as proposed in the Business Plan.

FINANCIAL EVALUATION

Generally speaking, there are several conventional capital investment evaluation techniques, namely the Payback Period, the Rate of Return Method and the Discounted Cash Flows Method. The use of the Payback Period and the Rate of Return Method or the like is designed to serve the purpose of comparing between two or mores capital investment projects simultaneously, and to help the investor(s) to examine a sound investment decision between the analysed projects by comparing the period to recover cost of investments or rate of return on capital employed. While the Discounted Cash Flows Method is designed to serve the purpose of evaluating the total sum of money to be received during the useful life of a project by investing certain amount of capital after considered the time value of money *(see Note)*.

Note: The time value of money is based on the premise that one will prefer to receive a certain amount of money today than the same amount in the future, all else equal.

The first step of the evaluation is to estimate the economic income projection. The projections of the future revenues used in this evaluation were prepared by the appointed personnel of the CJV and provided by the management of the Company, and they are responsible for the assumptions upon which the projections are based. Having discussed with the appointed personnel of the CJV, we understood that the assumptions they adopted reflected their judgment of their ability to market and to produce the predicted products through its marketing strategy and client networks. The projections used in our evaluation are based on the view of the management of the CJV and contained in the Business Plan. The management of the CJV via the Company confirmed to us that they have had due regard to published research data, current industry conditions and relevant experience, and they attested that the supplied data are accurate and reasonable. We were given to understand that it represented the most likely result to be made by the CJV in operating the Project, if successful. These data have been utilised without further verification.

A. Payback Period

Payback measures the number of years it is expected to take to recover the cost of the original investment. It is calculated by estimating the annual cash flows from the commencement of a project to the end of its useful life. Initially the outflow will be negative, but, within a year or two from the start of most projects, positive cash flows will occur. This is a simple method and usually used as a first screening method (quoted from Investment Appraisal by G. Mott for the readers' easy reference).

However, we have reservation to use this simple method for it ignore any cash received after the payback period which cash flows after the payback period are usually much larger than before. And, it makes no attempt to relate the cash earned on the investment to the amount actually invested. In other words, it failed to measure the total profitability over the whole life of the investment. Some analysts commented this method encouraging a short term view and discriminate against long term projects and growth projects, like this Project. This technique is only good to making comparison between two capital investment projects and to help to examine a sound investment decision between the two projects and, appropriate for entity where short term cash flows is mores important than long term cash flows.

B. Return on Capital Employed

This method is also known as the accounting rate of return. It is calculated by estimating average annual pre-tax profit as a percentage of the average capital employment i.e. the original investment. Analysts considered this method is good to measure a project if the entity is concerned with profits rather than liquidity over a period of time. However, like the previous method, it ignores the time value of money and takes no account of the timing of the profits for it take averaging over a period of time (quoted from Investment Appraisal of The CIMA for the readers' easy reference).

We consider this method as irrelevant for the ratio in consideration is based on averaging profit over a period of time, not cash flows, which is hard to determine to the Project at present moment.

Ipso facto, we have reservation to use the non-discounting but comparison evaluation techniques in appraising the Project for there did not have other capital investment project(s) for compare. We take the view that the comparison evaluation techniques, in this instance, can only be used when there are benchmarks to compare, say, statutory planned rate of return or payback period, and the evaluation is required for statutory purposes. However, to the best of our understanding, this evaluation is not intended to serve such statutory purposes nor there are reasonable, market-orientated benchmarks published by any recognised authorities in China for the investors to follow. Last but not the least, our instruction was to conduct a financial evaluation based on the materials provided in the Business Plan and to arrive at the financial net present value of the Project, if successful. Under such circumstance, we consider the use of the non-discounting comparison evaluation techniques in this engagement is irrelevant.

C. Discounted Cash Flows Method *(see Note)*

In considering the Discounted Cash Flow ("DCF") Method as the most appropriate method to assess the profitability of the Project, we have used the Net Present Value Method. By using this method, the expected cash flows on the Project are set out year by year and brought to a present value by use of present value factors at the appropriate rate. In constructing the cumulative present value table, positive present values are netted off against deficit present values so as to arrive at the "net present value" or in short form, NPV. When this net figure is positive then the Project is said to be viable because the stream if inflows is sufficient to pay the interest at the specified rate. Conversely, when the net present value is negative then the Project is not viable. The NPV is the difference between the present values of project benefits and project costs. The financial NPV is computed using the following formula (for illustration purpose):

$$NPV = \sum_{i=0}^{n} \frac{b_i - c_i}{(1+r)^i}$$

Where b_i = benefits in period i
c_i = costs in period i
r = discount rate
n = discounting period
i = Period

The decision criterion is, as said, simple – to accept a project with NPV greater than or equal to zero, and reject if otherwise.

By constructing a cumulative present value table, a cash flows table is required. In preparing the cash flows table, this would necessitate the subtraction, from net income, the capital expenditures and net changes in working capital and the addition of depreciation in the computation of cash flows year by year. The use of the NPV Method and its related analysis reflect investment criteria and requires the valuer to make empirical and subjective assumptions.

Note: Data from Bloomberg.com

The next step is to estimate the appropriate present value factor i.e. discount rate. Discount rate equals cost of capital. The cost of capital represents investors' expectations and for any given investment is a combination of three basic factors, namely the risk-free rate, the expected inflation and a premium for risk. There are many ways to estimate the discount rate such as the Build-up Model, the Capital Asset Pricing Model and the Arbitrage Pricing Model for equity investment and the Weighted Average of Cost of Capital for normal project investment. The use of the appropriate model in each analyse depends on numerous factors, in particular the future capital structure of the investment. There is no universal model that applies to all cases. In this engagement, we have considered the Weighted Average Cost of Capital ("WACC").

The WACC Model is an average representing the expected return on all of a company's capital. Each source of capital, such as stocks, bonds, and other debt, is assigned a required rate of return, and then these required rates of return are weighted in proportion to the share each source of capital contributes to the company's capital structure. The resulting rate is what the firm would use as a minimum for evaluating a capital project or investment (extracted from investorwords.com for readers' easy understanding).

The WACC is computed using the following formula (for illustration purpose):

$$WACC = P_e \text{ x } R_e + P_1 \text{ x } R_1$$

Where P_e = percentage of equity investment to total capital funds

P_1 = percentage of loaned funds

R_e = opportunity cost of capital of equity funds

R_1 = effective cost of loaned funds

In estimating the WACC in our evaluation, we have adopted a market-derived WACC of similar publicly traded companies (gold mining companies) in the stock exchange of China (Group I companies on next page) and other countries such as London, Canada with mining projects in China (Group II companies on next page). We took the view that they can form a reliable representative industry of gold mineral extraction business in China – same as the Project. Examples are: Zhongjin Gold Co., Ltd., Shangdong Gold-Mining Co., Ltd., Zijin Mining Group Co., Ltd., Zhaojin Mining Industry Co., Ltd., Lingbao Gold Co., Ltd., Hunan Non-Ferrous Metal Corp. Ltd., China Goldmines PLC, Southwestern Resources Corp., and Griffin Mining Ltd. In the course of appraisal, after taking into account the debt to equity ratio of the above companies and that of the Company, we have used the companies listed on next page to build a model of representative industry.

Details of the comparable companies are:

Group I

Name of the Company (listing region)	**Market Capitalisation (USD million)**	**Weighting**	**WACC**	**Weighted WACC**
Shandong Gold-Mining Co., Ltd. (China) (600547)	4,184.473	0.47	13.65%	6.36%
Zhongjin Gold Co., Ltd. (China) (600489)	4,797.184	0.53	14.68%	7.84%
Total:	**8,981.657**	**1.0**		**14.20%**

Group II

China Goldmines PLC (London)	101.809	0.17	6.76%	1.14%
Southwestern Resources Corp. (Toronto)	29.808	0.05	11.49%	0.57%
Griffin Mining Limited (London)	471.538	0.78	10.38%	8.11%
Total:	**603.155**	**1.0**		**9.82%**

Source: From Bloomberg.com at January 2008

* *Due to rounding process, the figures may not add to total*

The Group I companies are domestic companies in China with mining projects operating in China. The Group II companies and overseas companies having mining projects in China but need to consider the country risk premium between the relevant market and China to arrive at a comparative weighted WACC.

For the estimation of the inflation rate, we have made reference to Yunnan Province economy (of which the Project is and will be implemented), China's economy and the gold market as a whole.

Having considered the quantity and quality of available data, country risk premium between China and the comparable companies mentioned above and each analysed method in providing a valid indication of discount rate, we have, therefore, assigned a discount rate of 12.61% (rounding) in the appraisal before inflation factor adjustment.

In assessing the future gold price, we have made reference to the future gold price listed in the market. At the time we arrived at our evaluation, we have conducted a sensitivity analysis on the Net Present Value of the Project if changes in the assumptions used in the calculations/projections were to take place. Sensitivity analysis scenarios on two major parameters – the WACC and capital expenses in exploration and mining works are used in the financial evaluation of the Project with the following results.

	Net Present Value as at the Relevant Date *RMB (Million)* Capital Expenses (% p.a.)						
	–30%	**–20%**	**–10%**	**0%**	**+10%**	**+20%**	**+30%**
WACC							
14.61% (Pessimistic)	3,560	3,554	3,548	3,542	3,535	3,529	3,522
13.61%	3,718	3,711	3,704	3,698	3,692	3,685	3,678
12.61% (Expected)	3,885	3,879	3,872	3,865	3,858	3,852	3,845
11.61%	4,065	4,058	4,051	4,044	4,037	4,030	4,023
10.61% (Optimistic)	4,257	4,250	4,242	4,235	4,228	4,221	4,213

Thus, our financial evaluation of the Project, if successful, subject to the assumptions and financial parameters stated above became Renminbi 3,865 million Yuan.

MATTERS THAT MIGHT AFFECT THE VALUE REPORTED

No allowance has been made in our evaluation for any charges, mortgages, outstanding premium or amounts owing on the Project. Also, no allowance has been made in our evaluation for any expenses or depreciation or taxation, which may be incurred in effecting a sale of the Project. Unless otherwise stated, it is assumed that the Project is free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect its value.

As at the Latest Practicable Date of this circular, we are unable to identify any adverse news against the Project which may affect the reported value in our report. Thus, we are not in the position to report and comment on its impact (if any) to the Project. However, should it be established subsequently that such news did exist at the Relevant Date, we reserve the right to adjust the value reported herein.

RISKS AND ISSUES FACING THE IMPLEMENTATION OF THE PROJECT

A. Potential Risks

Of course, no one can neglect the potential risks of the Project such as it is unable to identify any predicted resources of gold after the proposed exploration work and under such circumstance, the financial Net Present Value of the Project reported in this report will become zero or lesser. Also, in theory, a company's overall cost of capital depending on the degree of risk of the prospective investment compared to the company's overall risk. Should the prospective investment later acquired by a company and considered by the investment public as a project more or less risky than the company's existing business, it will affect the company's overall risk, and thus, affect the value of the project in future.

B. Environmental

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the Dagangba Property and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the Dagangba Property. We have not carried out any investigation into past or present uses, either of the Target Mine or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the Dagangba Property from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the Target Mine or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might affect the conclusions now reported. Also, we made no comments on the environmental impact of the proposed design of the mining facilities and the mining operations which was silent in the Business Plan.

SOURCES OF INFORMATION AND ITS VERIFICATION

For the purpose of this evaluation, we were furnished with various copies of documents related to this evaluation and these copies have been referenced without further verifying with the relevant bodies and/or authorities. We need to state that we are not attorney of laws by nature, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the management of the Company. In our evaluation, we have assumed that the Project is able to sell and purchase in the market without any legal impediment (especially from the regulators). Should this not be the case, it will affect the reported value significantly. The readers are reminded to have their own legal due diligence work on such risks. No responsibility or liability is assumed.

In verifying the information provided in the Geology Reports with regard to the Target Mine, we have conducted an independent high-level review on the geology and resources estimated as contained in the Geology Reports. The objectives of our high-level review are:

- Describe the geologic characteristics of the gold deposit and its development potential in the Target Mine.

- Conduct a review assessment of the estimates of resources prepared by prior workers in the Target Mine.

- Review and characterize the development and production plan currently in place at the Target Mine.

- Describe the current status of the development and production plan.

In accomplishing these objectives, the following tasks were conducted:

- An initial review of various geologic maps and reports pertaining to the Target Mine.

- A site visit to the Target Mine and its environs.

- A detailed review of geologic maps, drill holes, cross-sections, and reports.

- Interviews at the site with persons knowledgeable of the Target Mine and its operation including but not limited to the engineers of the PRC Partner.

Our high-level review work was preformed in accordance with the guidelines set by the Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, prepared by The Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia which in line with the International Reporting Template for Exploration Results, Mineral Resources and Mineral Reserves by the Committee for Mineral Reserves International Reporting Standards.

We considered that the information that provided to us for our high-level review is sufficient enough for to us to arrive at informed view, and such view forms part of our evaluation consideration.

In fact, we have been provided with a set of data, including but not limited to, a legal opinion provided by the management of the Company dated 17 April 2008 on the qualification of the PRC Partner to conduct geology survey reports in China. We relied solely on such data set to place our reliance on the information, in particular the drilling and mapping in the Geology Reports. To the best of our knowledge, the geology data (geology characteristics and ore body characteristics) contained in the Business Plan and the Geology Reports match with our high-level review.

Our procedures to evaluate did not include undertaking a feasibility study of the proposed expansion of the mining operations of the Target Mine. Accordingly we do not express an opinion as to the merit or demerit of any future expansion (if any).

Unless otherwise stated, we have not carried out a valuation on a redevelopment basis on the Dagangba Property and the study of possible alternative development options and the related economics do not come within the scope of our report.

We are not contracted to conduct a due diligence to review the existing mineral extraction industry and the official policy on granting out mining rights/exploration rights in China. In the course of valuation, we have solely depended on the advice given by the management of the CJV via the Company. We are unable to accept any responsibility for the reliability of the advice.

Also, we are not contracted to conduct a detailed geological study or mine plan, thus, our report is not a detailed evaluation of the feasibility of the Dagangba Property. In the course of the valuation, we have solely depended on the advice given by the management of the CJV via the Company. We are unable to accept any responsibility for the reliability of the advice.

Our engagement did not include an independent geological survey to verify the information provided. Since we are not the authorised person to conduct geological survey in China and the enormous resources required in conducting a detailed inspection and survey, we were further instructed to conduct our evaluation based on the information given in the various reports or explanatory statements. We are unable to accept any responsibility for the reliability of the information given in these documents.

When we adopted the work products from other professions, external service/data providers and/or the management of the CJV via the Company in our evaluation, the assumptions and caveats adopted by them in arriving at their opinions also apply in our evaluation. The procedures we have taken do not require us to examine all the evidences, like an auditor, in reaching at our opinion. As we have not performed an audit, we are not expressing an audit opinion in our evaluation.

We are unable to accept any responsibility for the information that has not been supplied to us by the management of the CJV via the Company. We have sought and received confirmation from the management of the Company that no material factors have been omitted from the information supplied. The evaluation is based upon the assumption of full disclosure between the Company and us of material and latent facts that may affect the appraisal. No responsibility is assumed for withheld information (if any).

Unless otherwise stated, the base currency of our report is Renminbi Yuan ("RMB").

CONCLUSION

Based on the investigation, analysis, stated assumptions, limitations, reasoning and data outlined as above, and on the evaluation methods employed, it is our opinion that as of the Relevant Date the financial Net Present Value of the Project (before taking into consideration any transaction costs), as part of a going concern business of the CJV, if successful, under the Business Plan, is reasonably stated in the region of RENMINBI THREE THOUSAND EIGHT HUNDRED AND SIXTY FIVE MILLION YUAN ONLY (RMB 3,865,000,000.00) of which RMB628,000,000.00 is attributable to the Supply Agreement.

LIMITING CONDITIONS

This report is provided strictly for the sole use of the Company. Neither the whole nor any part of this report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this report in this circular at today's date for the Company's shareholders' reference.

Our opinion of value in this report is valid only for the stated purpose and only for the Relevant Date. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and we accept no responsibility whatsoever to any other person.

No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or change of government policy or financial condition or other conditions, which occur subsequent to the date hereof.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of our services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

The Company is required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our report except to the extent that any such loses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

STATEMENTS

This report is based on generally accepted procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgement in performing the report, the readers and the client are urged to consider carefully the nature of such assumptions which are disclosed in this report and should exercise caution in interpreting this report.

The evaluation has been undertaken by valuers, acting as external valuer, qualified for the purpose of the evaluation.

We retain a copy of our report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of our report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Company's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

We hereby certify that the fee for this service is not contingent upon our conclusion and we have no significant interest in the Project, the Company, the PRC Partner and the CJV.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Joseph Ho Chin Choi *BSc PgD RPS(GP)*
Managing Director

Contributed valuers in the report:

Elsa Ng Hung Mui *BSc MSc RPS(GP)*
Sam Lai Siu Nam *BBA*

Notes:

1. Mr. Joseph Ho Chin Choi has been conducting asset valuations and advisory work in Hong Kong, Macau, Taiwan, mainland China, Japan, South East Asia, Australia, Scotland, Germany, Finland, Guyana, Canada and the United States of America for various purposes since 1988. He obtained the Examination Certificate of the Uniform Standards of Professional Appraisal Practice issued by the American Society of Appraisers in 1996. He has extensive experience in the valuation of various types of intangible assets and power plants, toll road, health products and foodstuffs, mineral extracting, agricultural property assets, financial services, luxurious consumer goods, pharmaceutical and biotechnology, electronic consumer products manufactory, telecommunication, media and information technology related businesses for the listed companies in Hong Kong, Taiwan, the PRC, Singapore, Malaysia, the United Kingdom, Canada and the United States of America. At present, he is a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS (Hong Kong Institute of Surveyors). Over the length of his professional experience, he has valued and managed the valuation of a number of mineral extracting industry related projects for merger and acquisition, fund raising, financial reporting and management reference purposes. He also prepared and signed technical review reports of mineral extraction industry for public documents purpose.

2. Ms Elsa Ng Hung Mui has been conducting valuation of real estate properties in Hong Kong since 1994 and has mores than 9 years of experience in valuing properties in mainland China. She obtained a Master Degree of Science in Finance and involved in various financial assets valuations in the past years. At present, she is a valuer in the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS. Over the length of her professional experiences, she has valued and managed the valuation of a number of mineral extracting industry related projects for merger and acquisition, fund raising, financial reporting and management reference purposes.

3. Mr. Sam Lai Siu Nam has been conducting business enterprise, financial and intangible asset valuations in Hong Kong since 2006. He has experiences in valuing a wide variety of financial assets such as employee stock option, convertible bond, equity-linked note and financial guarantee contract and business enterprise such as mining, forestry, property development, toll road and commercial retail business for purposes like merger and acquisition, disposal and annual accounting.

Set out below are the texts of the reports from Grant Thornton and Hantec Capital Limited in connection with the cash flow forecasts underlying the valuation on the project of the CJV as at 31 December 2007 and prepared for the purpose of inclusion in this circular.

(A) REPORT FROM GRANT THORNTON

Grant Thornton
均富

Member of Grant Thornton International Ltd

13 May 2008

The Directors
China Metal Resources Holdings Limited
Unit 1006
10th Floor, Tower One Lippo Centre
No. 89 Queensway
Hong Kong

Dear Sirs,

We have examined the arithmetical accuracy of the calculations of the discounted cash flow forecast underlying the business valuation in relation to the appraisal of a project comprising an ore supply portion and an exploration portion (the "Project") of 雲南西部礦業有限公司 (the "CJV") (hereinafter referred to as the "Underlying Forecast") which is regarded as a profit forecast under paragraph 29(2) of Appendix 1B of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The Underlying Forecast is set out in Appendix IV "Valuation Report on the project of the CJV" to the circular of China Metal Resources Holdings Limited (the "Company") dated 13 May 2008 (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 GEM 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 IV 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 Project of the CJV.

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,

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

(B) REPORT FROM HANTEC CAPITAL LIMITED

Hantec Capital Limited
45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

13 May 2008

The Directors
China Metal Resources Holdings Limited
Unit 1006, 10th Floor
Tower One Lippo Centre
No. 89 Queensway
Hong Kong

Dear Sirs,

We refer to the discounted cash flow forecasts underlying the business valuation prepared by LCH (Asia-Pacific) Surveyors Limited ("LCH") in relation to the appraisal of the valuation of a project comprise an ore supply portion and an exploration portion, which comprises the Supply Agreement in relation to the Mine and an exploration rights of the Exploration Area (the "Valuation"). The Valuation is regarded as a profit forecast under paragraph 29(2) of Appendix 1B of the GEM Listing Rules and the Valuation is set out in Appendix IV to the circular of the Company dated 13 May 2008 (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 LCH 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 Grant Thornton dated 13 May 2008 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 of the opinion 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
Hantec Capital Limited
Thomas Lai
Director

The following is the text of the letter and valuation certificate on property interest of the Group as at 31 March 2008 prepared by LCH (Asia-Pacific) Surveyors Limited for the purpose of inclusion in this circular.

利駿行測量師有限公司
LCH (Asia-Pacific) Surveyors Limited
CHARTERED SURVEYORS
PLANT AND MACHINERY VALUERS
BUSINESS & FINANCIAL SERVICES VALUERS

The readers are reminded that the report which follows has been prepared in accordance with the guidelines set by the International Valuation Standards, Eighth Edition, 2007 (the "IVS") published by the International Valuation Standards Committee as well as the HKIS Valuation Standards on Properties, First Edition, 2005 (the "HKIS Standards") published by the Hong Kong Institute of Surveyors (the "HKIS"). Both standards entitle the valuer to make assumptions which may on further investigation, for instance by the readers' legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. If additional documents and facts are made available, the valuer reserves the right to amend this report and its conclusions.

17th Floor
Champion Building
No. 287-291 Des Voeux Road Central
Hong Kong

13 May 2008

The Directors
China Metal Resources Holdings Limited
Unit 1006, 10th Floor
Tower One, Lippo Centre
No. 89 Queensway
Hong Kong

Dear Sirs,

In accordance with the instructions given by the management of China Metal Resources Holdings Limited (hereinafter referred to as the "Company") to us to value the property interest currently owned by the Company or its subsidiary (collectively, hereinafter together with the Company referred to as the "Group") in Hong Kong (hereinafter referred to as the "Subject Property"), we confirm that we have conducted physical inspections, made relevant enquiries and obtained such further information as we consider necessary to support our opinion of value of the Subject Property as at 31 March 2008 (hereinafter referred to as the "Date of Valuation") for the Company's internal management reference purpose and to be incorporated into a Company's circular for its shareholders' reference.

We understand that the use of our report (regardless of the format of presentation) would form part of the Company's circular and we have not been engaged to make specific sale or purchase recommendations. We further understand that the use of our work product will not supplant other due diligence which a rational investor should conduct in reaching business decisions regarding the Subject Property.

BASIS OF VALUATION AND ASSUMPTIONS

According to the IVS, which the HKIS Standards also follows, there are two valuation bases in valuing property, namely market value basis and valuation bases other than market value. Our valuation of the Subject Property is on market value basis.

The term "Market Value" is defined by the IVS and the HKIS Standards as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The Subject Property has been valued on an open market basis assuming sale with vacant possession by using the sales comparison approach. This approach considers the sales, listings or offering of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison. The underlying assumption is that an investor will pay no more for a property than he or she would have to pay for a similar of property of comparable utility.

Our valuation of the Subject Property has been made on the assumption that the owner sells the Subject Property on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the Subject Property.

MATTERS THAT MIGHT AFFECT THE VALUE REPORTED

No allowance has been made in our valuation for any charges, mortgages, outstanding premium or amounts owing on the Subject Property. Unless otherwise stated, it is assumed that the Subject Property is free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect its value.

As at the Latest Practicable Date of this circular, we are unable to identify any adverse news against the Subject Property which may affect the reported value in our work product. Thus, we are not in the position to report and comment on its impact (if any) to the Subject Property. However, should it be established subsequently that such news did exist at the Date of Valuation, we reserve the right to adjust the value reported herein.

ESTABLISHMENT OF TITLES

We have not been provided with title documents regarding the Subject Property, however, we have conducted title searches of the Subject Property in the Land Registry of Hong Kong. We have not examined the original documents to verify the ownership and encumbrances or to ascertain the existence of any lease amendments, which may not appear on the copies handed to us. All documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal title and the rights (if any) to the Subject Property. Any responsibility for our misinterpretation of the documents cannot be accepted.

INSPECTIONS AND INVESTIGATIONS OF THE PROPERTY IN ACCORDANCE WITH VS4 OF THE HKIS STANDARDS

We have conducted inspection to the exterior, and where possible, interior of the Subject Property in respect of which we have been provided with such information as we have requested for the purpose of our valuation. We have not inspected those parts of the Subject Property which were covered, unexposed or inaccessible and such parts have been assumed to be in reasonable condition. We cannot express an opinion about or advice upon the condition of the Subject Property and our work product should not be taken as making any implied representation or statement about the condition of the Subject Property. No structural survey, investigation or examination has been made, but in the course of our inspections, we did not note any serious defects in the Subject Property inspected. We are not, however, able to report that the Subject Property is free from rot, infestation or any other structural defects. No tests were carried out to the utilities (if any) and we are unable to identify those utilities covered, unexposed or inaccessible.

We have not carried out on-site measurements to verify the correctness of the area of the Subject Property, but have assumed that the area shown on the documents and handed to us are correct. All dimensions, measurements and areas are approximations.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of the Subject Property, or has since been incorporated, and we are therefore unable to report that the Subject Property is free from risk in this respect. For the purpose of this valuation, we have assumed that such investigation would not disclose the presence of any such material to any significant extent.

SOURCES OF INFORMATION AND ITS VERIFICATION IN ACCORDANCE WITH VS5 OF THE HKIS STANDARDS

We have relied solely on the information provided by the management of the Company or its appointed personnel without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, locations, titles, easements, tenure, occupation, floor areas and all other relevant matters.

The scope of valuation has been determined by reference to the property list provided by the management of the Company. The management of the Company has confirmed to us that it has no property interests other than those specified on the list supplied to us.

Information furnished by others, upon which all or portions of our work product are based, is believed to be reliable but has not been verified in all cases. Our procedures to value or work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our work product.

When we adopted the work products from other professions, external data providers and the management of the Company in our valuation, the assumptions and caveats that adopted by them in arriving at their figures also applied in our valuation. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

We are unable to accept any responsibility for the information that has not been supplied to us by the management of the Company or its appointed personnel. Also, we have sought and received confirmation from the management of the Company or its appointed personnel that no materials factors have been omitted from the information supplied. Our analysis and valuation are based upon full disclosure between us and the Company of material and latent facts that may affect the valuation. We have had no reason to doubt the truth and accuracy of the information provided to us by the management of the Company or its appointed personnel. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts are in Hong Kong dollars.

LIMITING CONDITIONS

Our opinion of value of the Subject Property in this report is valid only for the stated purpose and only for the Date of Valuation, and for the sole use of the named Company. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and the valuer accepts no responsibility whatsoever to any other person.

No responsibility is taken for changes in market conditions and local government policy and no obligation is assumed to revise the attached valuation certificate to reflect events or conditions, which occur or make known to us subsequent to the date hereof.

Neither the whole nor any part of this report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this report in this circular to the Company's shareholders' reference.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

The Company is required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our report except to the extent that any such loses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

STATEMENTS

The attached valuation certificate is prepared in line with the requirements contained in Chapter 8 of the GEM Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as well as the guidelines contained in the HKIS Standards. The valuation has been undertaken by valuers, acting as external valuers, qualified for the purpose of the valuation.

We retain a copy of this report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of this report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Company's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

We hereby certify that the fee for this service is not contingent upon our conclusion of value and we have no significant interest in the Subject Property, the Company or the value reported.

The valuation certificate is attached.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Elsa Ng Hung Mui *RPS (GP)*
Associated Director

Contributed Valuer:
Leslie Wong Tak Chiu *B.Sc.*

Note:

Ms. Elsa Ng Hung Mui is a Registered Professional Surveyor who has been conducting valuation of real estate property in Hong Kong since 1994 and has more than 9 years of experience in valuing property in mainland China. Ms. Elsa Ng Hung Mui is a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS.

VALUATION CERTIFICATE

Property owned and occupied by the Group in Hong Kong and valued on the basis of Market Value

Property	Description and tenure	Particulars of Occupancy	Market value in existing state attributable to the Group as at 31 March 2008 *HK$*
Office Unit 1006 (Unit 6) on 10th Floor Tower One Lippo Centre No. 89 Queensway Hong Kong 142/102,750th shares of and in Inland Lot No. 8615	The property comprises an office unit on the 10th Floor of a 46-storeyed office building which was completed in 1987. The gross floor area and saleable area of the property are approximately 1,628 sq.ft. (151.24 sq.m.) and 1,220 sq.ft. (113.34 sq.m.), respectively. The property is held under a government lease for a term of 75 years commencing from 15 February 1984 and renewable for a further term of 75 years. The government rent payable to the whole Inland Lot No. 8615 is HK$1,000 per annum.	The property is currently occupied by the Group for office purpose.	22,000,000 (100 per cent. interest)

Note:

The current registered owner of the property is Richtop Holdings Limited, a wholly-owned subsidiary of the Company, via an assignment dated 30 November 2007 and registered in the Land Registry by Memorial No. 07122400130022 on 24 December 2007.

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The Directors

China Metal Resources Holdings Limited
(formerly known as Glory Future Group Limited)

Room 1006, 10th Floor Tower 1,
Lippo Centre, 89 Queensway,
Hong Kong

May 6th 2008

RE: INDEPENDENT TECHNICAL REVIEW REPORT – MAIWOBA, GUOYUAN AND MULINGBA ORE ZONES ("TOGETHER THE "GUOYUAN GOLD MINE")

Dear Sirs,

Minarco-MineConsult ("MMC") has been engaged by China Metal Resources Holdings Limited. ("CMRHL" or "the Company") to carry out an Independent Technical Review ("ITR") of the mineral assets belonging to China Nonferrous Metals Resource Investment Limited ("CNMRIL") to support a planned transaction ("the Transaction") between the CMRHL and CNMRIL.

The "Relevant Assets" associated with the Transaction include an Exploration Permit, a 3 year mining contract ("Mining Contract") with Yunnan Xibu Mining Ltd ("YXML") a partially owned subsidiary of CNRMIL. The Mining Operation Permit (connected with the Mining activities as discussed in the report) is not part of the Transaction, but instead the Mining Contract between YXML and Nuclear Industrial Team 209 of Mangshi Gold Mine in Luxi City ("NIB 209") the owner of the Mining Operation Permit, will provide the new owner CMRHL with mined ore from within the Mining Operation Permit area at a specified price and quantity for a specific period. Once the Relevant Assets have been transferred to CMRHL, the Mining Contract will be required to be updated to supply ore to CMRHL.

The Relevant Assets are located in Mangshi Santai Shan, Mengdan Area, Luxi City, Yunnan Province of the Peoples Republic of China ("PRC"). The conclusions of this ITR are summarised in this Hong Kong Stock Exchange ("HKEX") compliant report titled the Independent Technical Review Report ("ITRR").

Technical data for review was limited and MMC has relied principally on the 2005 report "Universal Survey Report of Gold mine in Mengda Area, Santai Mount, Luxi City, Yunnan Province" ("the 2005 Report") by Team 209.

MMC carried out a review of Mineral Resources reported by NIB209 using Chinese Mineral Reporting Standards and has assessed this in comparative terms with the reporting requirements of the JORC Code. MMC has relied on the accuracy of the factual material provided by the company.

The Chinese Code is the base reference for Mineral Resource estimates. All statements of the Chinese Code are also referenced by equivalent JORC terms. Reporting standards for the ITR report are based on the JORC Code. The reporting standard is based on compliance requirements and the "competent person" defined in the JORC Code.

MMC operates as an independent technical consultant providing resource evaluation, mining engineering and mine valuation services to the resources and financial services industries. This report was prepared on behalf of MMC by technical specialists, details of whose qualifications and experience are set out in ***Annexure A***.(18.04)

MMC has been paid, and has agreed to be paid, professional fees for its preparation of this report. However, none of MMC or its directors, staff or sub-consultants who contributed to this report has any interest in:(18.09 8a)

- the Company; or
- the Relevant Assets; or
- the outcome of the transaction.

Drafts of this report were provided to the Company, but only for the purpose of confirming the accuracy of factual material and the reasonableness of assumptions relied upon in the report. The review was based mainly on information provided to CMRHL, either directly from project sites or from other offices. The report is based on information made available to MMC prior to 6th of March 2008. Additional information regarding exploration potential within the Exploration Permit was made available prior to 1st of May 2008.

The work undertaken is a technical review of the information provided as well as that obtained during such inspections as MMC considered appropriate to prepare the report. It specifically excludes all aspects of legal issues, commercial and financing matters, land titles and agreements, excepting such aspects as may directly influence technical, operational or cost issues.

In MMC's opinion, the information provided by CMRHL and the relevant mine/project sites was not sufficient to support JORC standards, however the data and estimates reasonable and nothing discovered during the preparation of the report suggested that there was any significant error or misrepresentation in respect of that information.

MMC has independently assessed the Relevant Assets by reviewing pertinent data, including Mineral Resources, future exploration plans, development potential, and potential extraction issues. All opinions, findings and conclusions expressed in the report are those of MMC and its specialist advisors.

MMC's conclusions from this review are summarised as follows:

- The key asset under consideration is an Exploration Permit with an area of 113.96 km^2 prospective for gold and other base metals. Contained within the extents of the Exploration Permit area (see ***Figure 2.1***) is a Mining Operation Permit area (but this is not included in this Transaction and is owned by others) with a total area 0.43 km^2 which is surrounded by the Exploration Permit area and an annual mining limit of 20 kt of ore per annum. The Mining Operation permit is surrounded by the Exploration Permit. The company has advised that the owner of the Mining Operation Permit has submitted an application to increase the production capacity of the Mining Operation Permit. The Mining Operation Permit contains the Guoyuan Gold Mine which is currently targeting three separate ore blocks namely Guoyuan, Mulingba and Maiwoba.

- MMC understands that the Title of the Mining Operation Permit will not be transferred as part of the Transaction, but will effectively be subleased by way of an ore supply contract between YXML and Nuclear Industrial Brigade 209 Mangshi Gold Mine ("209 MGM").

- The potential mineral assets are:

  a red clay gold ore that is currently mined and with reasonable estimates of quantities.

  dolomite hosted gold mineralisation (Carlin type) that currently represents a significant deeper exploration target.

- The current operations at the Guoyuan Gold Mine involve extraction of red clay ore within deep infill crevasses over a "karst" surface. The mine utilises traditional small scale opencut mining techniques to mine ore ready for processing using heap leaching techniques. Mining has been carried out since 2001, with a total of approximately 1 tonne of gold produced.

- The gold orebody is hosted in an eluvial red clay infill over a deeply weathered karst surface. Limited drilling data and current mining exposure indicates a highly variable orebody thickness with consistent low grade gold values.

- NIB209 estimated and reported Mineral Resources in accordance with Chinese reporting standard and in MMC's opinion, the Chinese estimates are reasonable. The Chinese estimations however do not comply with JORC guidelines and therefore MMC refer to JORC equivalent terms in this report. These estimates could be upgraded to JORC standards following validation of exploration methods, and estimation parameters and signed off by a "competent person".

- Total Mineral Resources (insitu quantities) within the Mining Operation Permit is approximately **1.6 Mt** of gold ore at an average gold grade of **1.5 g/t** (25% 332/indicated, 75% 333/inferred). The JORC Code does not permit reporting of contained metal for Mineral Resources to avoid the perception that all Mineral Resources can be economically extracted. However the Chinese estimates in the Mining Operation Permit indicate a range of 2.0 to 2.5 tonnes of contained gold within geological or in situ quantities.

- There are three (3) ore blocks within the Mining Operation Permit.

  The Mulingba ore block has a total of **98 kt** of gold ore (333/inferred status) at an average gold grade of **1.4 g/t**, (approximately **137 kg** of contained gold).

  The Maiwoba ore block contains **1,195 kt** of gold ore (30% 332/indicated & 70% 333/inferred status) at an average gold grade of **1.4 g/t** (approximately **1,703 kg** of contained gold).

  The Guoyuan ore block contains **341 kt** of gold ore (15% 332/indicated & 85% 333/inferred status) at an average gold grade of **1.9 g/t** (approximately **645 kg** of contained gold)

- The current use of Mineral Resources (in situ quantities) as a guide for Ore Reserves is a reasonable management tool for this style of orebody and at the low levels of production. Although Ore Reserves have not been estimated, It is likely with low production rates, that most of the in situ quantities can be extracted.

- Within the Mining Operation Permit the 2008 estimates identify additional 334 or "exploration targets" in each of the three ore zones containing in the order of **3.6 Mt** of gold ore with an average gold grade of **1.2 g/t**. This indicates a range of 4.0 to 4.5 tonnes of total contained gold within geological or in situ quantities.

- Recent exploration for red clay type ore within the Exploration Permit has identified extensions to the ore sections in the Mining Operation Permit. These additional "exploration targets" identified in the northern Mulingba area, are the order of 1 Mt of red clay ore with an average gold grade of 1.7 g/t. Exploration potential within the Exploration Permit based on the extent of prospective dolomitic geology is of the order of 4 Mt of red clay ore.

- Recent exploration for Carlin Type ore within the Exploration Permit has identified gold mineralisation in the Maiwoba area based on 6 deep drill holes. Preliminary estimates of Carlin type gold mineralisation is in the order of 2Mt with an average grade of 1.6 g/t. These estimates are for gold mineralisation only and require a review of cut off grades (cog) to estimate economic ore as Mineral Resources. There is further exploration potential for Carlin Type mineralisation within the Exploration Permit based on the extent of prospective dolomitic geology.

- Current mining excavates to depths in the range of 5 to 7 metre (from the surface) with typical gold grades averaging from **1.5** to **2.0 g/t**. Higher gold concentrations are located in deeper crevasse's between the karst pinnacles. MMC notes that the red clay orebody is extremely variable in shape (thickness) and is likely to have variable ore grades.

- MMC understands that the associated mining equipment and processing facilities are **not part** of the commercial transaction; however future costs associated with construction of infrastructure and heap leach pads etc will be the responsibility of the Company.

- Ore is processed using cyanide spray heap leaching techniques followed by carbon absorption, which is currently achieving gold recoveries of typically between 75% and 85%.

- The Company plans to increase production from current annual production levels of approximate 700 kt for 2007, to 1,760 kt in 2008, 2,460 kt in 2009 and 3,180 kt in 2010. Based on the current estimates, the average mined grade will decrease from current levels of **1.8 g/t** to **1.5 g/t** in the future 12 to 18 months, then down to **1.2 g/t** in future mining areas. MMC also notes that based on the current insitu resource estimates, the total 332 and 333 resources only total 1,634 kt, which is less than the total production planned for 2008. The achievability of the future plans is therefore contingent on the upgrading of quantity and classification confidence of the existing resource estimates which will require a reasonable amount of capital investment and exploration.

Risks include:

- Highly variable thickness of the red clay orebody limits geological confidence of interpretation and estimates of Mineral Resources. Definition of the red clay ore by drilling is difficult due to the geological variability of the karst surface.

- Likely variability of gold grades throughout the red clay orebody. The current estimates of these grade trends have low geological confidence.

- The mining contract and company's production plan include total in situ quantities and "exploration targets" of the order of 6 Mt for the next 3 to 4 years. These production targets are optimistic and their achievement will require immediate and additional exploration and development drilling to upgrade the confidence of In situ quantities.

- Higher production rates may reduce recovery of red clay ore, in particular lower recovery of high grade pockets within the base of crevasses within the karst surface.

- Risk to metallurgical recoveries due to type and sizing of gold distribution in the red clay ore bodies.

Opportunities include:

- Definition of additional red clay type ore Mineral Resources as extensions of current ore sections within the Mining Operation Permit.
- Geochemical soil surveys are a good exploration method as an indicator for prospective red clay ore types.
- Upgrading the geological confidence of red clay ore Mineral Resource estimates by pit mapping and channel sampling.
- Higher recovery of high grade red clay ore at the base of the crevasses using hydraulic mining methods. This may require relatively low production rates.
- An exploration strategy and staged exploration programme to identify additional red clay ore within the much larger Exploration Permit.
- Based on previous geological works including shallow wells, drill holes, sample collection and testing, historical gold production in the Mining Operation Permit and regional geological reporting, the NI 209 Geological Team based initial exploration potential on "Carlin type" gold deposits, with a preliminary estimate of up to 60 to 100 t of contained gold, MMC advise that only red clay type ore has been identified and that Carlin Type deposits are only indicated as gold mineralisation. Estimates of contained gold in Carlin Type deposits by NI 209 Team are not acceptable for compliance reporting. At this stage there is insufficient geological information to validate any Mineral Resource estimation of Carlin Type deposits (even at a 334 Confidence level). Preliminary estimates of "exploration targets" (334) for Carlin type gold mineralisation is in the order of 2 Mt with an average grade of 1.6 g/t. Better exploration methods to identify the dolomitic hosted ore (Carlin Type) beneath the cover of clay regolith are recommended.

Yours faithfully

Bill Knox
Executive Consultant, Minarco-MineConsult

1 OVERVIEW AND EXECUTIVE SUMMARY

1.1 INTRODUCTION

1.1.1 Limitations and Exclusions

The review was based on various reports, plans and tabulations, which were translated into English. Technical data for review was limited and MMC has relied principally on the 2005 report "Universal Survey Report of Gold mine in Mengda Area, Santai Mount, Luxi City, Yunnan Province" ("the 2005 Report") by the Geological Team 209 of Yunnan Province Nuclear Industry ("the 209 Team"). The resource numbers however are based on a new resource estimated dated January 2008.

This report is based mainly on information provided by the Company either directly from the mine sites and other offices, or from reports by other organisations whose work is the property of the Company. The Company has not advised MMC of any material change, or any event likely to cause material change, to the operations or forecasts since the date of asset inspections.

During this examination MMC's technical team physically visited all three locations, Guoyuan, Maiwoba and Mulingba. It is understood (based on representations made by management) that the other surface (eluvial) gold deposits, Mulingba and Maiheba, are similar to Guoyuan. These are shown in ***Figure 1.1.***

The work undertaken for this report is that required for a technical review. It specifically excludes all aspects of legal issues, commercial and financing matters, land titles, agreements, excepting such aspects as may directly influence technical, operational or cost issues.

MMC has specifically excluded making any comments on the competitive position of the Assets compared with other similar and competing assets. MMC strongly advises that any potential investors make their own comprehensive assessment of both the competitive position of the Relevant Assets in the market.

1.1.2 Study Methodology

The review was completed in several stages as follows:

- **Preparatory Work and Translation** – Technical data was limited principally to the 2005 Report which was made available to MMC prior to the site visit.

- **Site Visit** – MMC's Senior Geologist, Senior Processing Engineer and Mining Engineer inspected the Yunnan Gold Project on the 25th and 26th of February 2008.

- **Document and Reports** – Copies of the 2005 Report and associated supporting documents were made available to MMC's Beijing office for translation and review by experts in MMC's other offices around the world.

- **Preparation of the report** – MMC prepared this report and provided drafts to the Company and its specialist advisers.

The basis for the comments and forecasts in this report is information compiled by enquiry and verbal comment from the Company, validated where possible with hard data or by comment from more than one source. Where there was conflicting information on issues, MMC used its professional judgment to resolve the issues where possible.

In general, the data provided was sufficient for MMC to complete the scope of work. The quality and quantity of data available, and the co-operative assistance, in MMC's view, showed a willingness by the Company to assist the ITR process.

1.2 DESCRIPTION OF ASSETS

The potential mineral assets are:

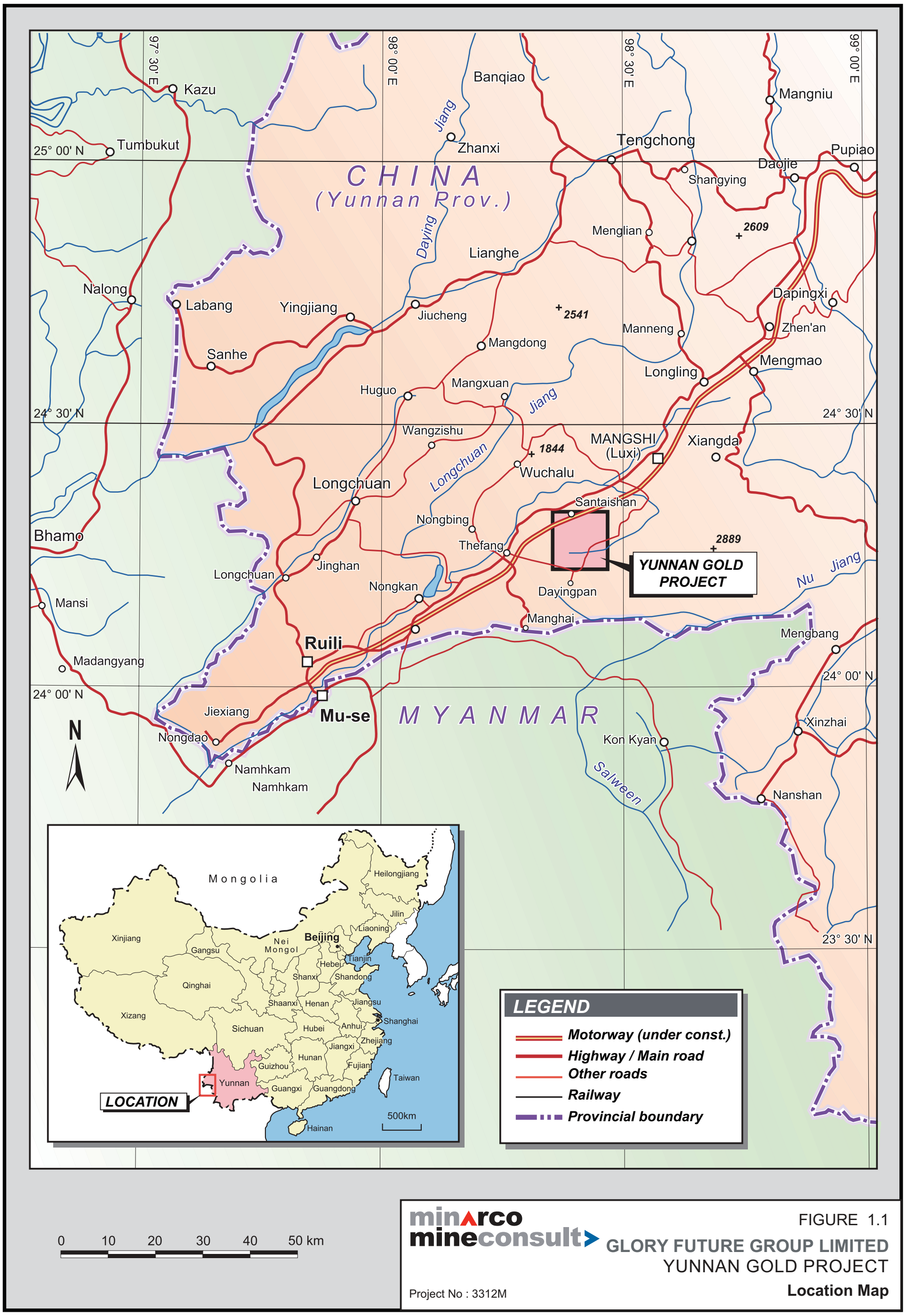
- a red clay gold ore type that is currently mined and with reasonable estimates of quantities.
- a dolomite hosted gold ore type (Carlin type) that currently represents an exploration target.

The assets are an Exploration Permit with an area of 113.96 km^2 prospective for gold and other base metals. Contained within the extents of this Exploration Permit is a Mining Operation Permit (which is not part of this transaction, and is not part of the assets) with a total area 0.43 km^2 and an annual mining limit of 20 kt of ore per annum (although the company is producing well above this production limit and has submitted an application to increase the capacity of the Mining Operation Permit). The Guoyuan Gold Mine is within the Mining Operation Permit and comprise three separate ore sections namely Guoyuan, Mulingba and Maiwoba (collectively referred to as the Guoyuan Gold Mine). Although the Mining Operation Permit is contained within the perimeter of the Exploration Permit area (113.95km^2), it does not include the area of the Mining Operation Permit (0.43km^2). In this way, the two areas are mutually exclusive.

The Relevant Assets include:

- the Exploration Permit
- the mining contract associated with the Mining Operation Permit (but not the Mining Operation Permit itself)
- the infrastructure associated with the mine
- the gold processing facility.

The general locations of the assets are shown in ***Figure 1.1.***



1.3 SUMMARY OF RESOURCES AND RESERVES

Mineral Resources have been estimated and reported by the 209 Team in accordance with the Chinese Resource Reporting Standards (refer to ***Annexure C***). MMC refer to JORC equivalent terms in this report. In MMC's opinion, the Chinese estimates are reasonable, however without validation of exploration and estimation methods, these estimates do not comply with JORC guidelines, Therefore MMC have referred to Mineral Resource in situ quantities.

- The Chinese Code is the base reference for Mineral Resource estimates.
- All statements of the Chinese Code are also referenced by equivalent JORC terms.
- Reporting standards for the ITR report are based on the JORC Code.
- The reporting standard is based on compliance requirement and the "competent person" defined in the JORC Code.

A summary of Mineral Resources as at January 2008 are summarised in **Table 1.1.**

Table 1.1 – In Situ Quantities (as at January 2008)

Ore Section	Orebody Type	Chinese Code	JORC Equivalent	Ore (kt)	Weighted Average Grade (g/t)	Contained Gold (kg)
Mulingba Ore Section	Industrial Grade	333	Inferred	98	1.4	137
Maiwoba Ore Section	Industrial Grade	332	Indicated	353	1.5	540
		333	Inferred	842	1.4	1,163
Guoyuan Ore Section	Industrial Grade	332	Indicated	50	1.7	85
		333	Inferred	291	1.9	560
Total (All three Areas)				**1,634**	**1.5**	**2,485**

334 (Exploration Targets)

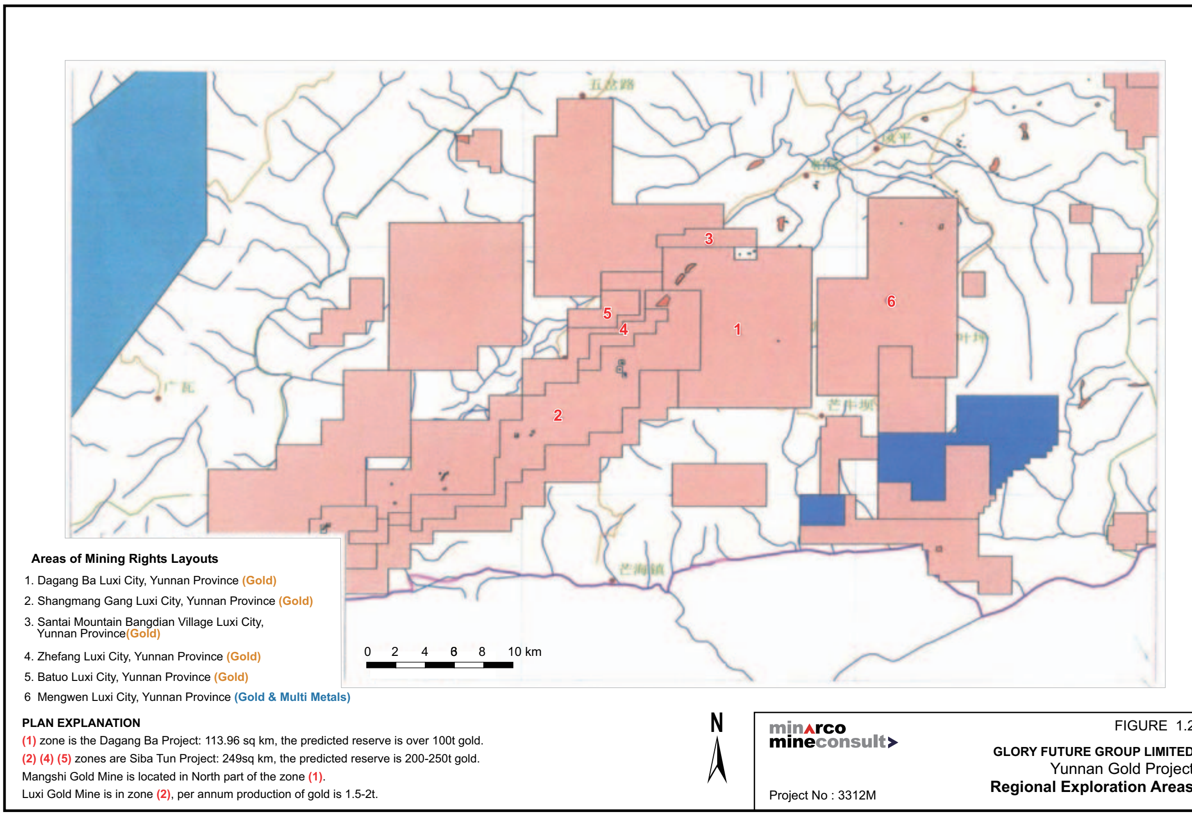
Ore Section	Orebody Type	Chinese Code	JORC Equivalent	Ore (kt)	Weighted Average Grade (g/t)	Contained Gold (kg)
Mulingba Ore Section	NA	334	Exploration Target	1,266	1.0	1,266
Maiwoba Ore Section	NA	334	Exploration Target	151	1.7	256
Guoyuan Ore Section	NA	334	Exploration Target	2,244	1.3	2,940
Total (All three Areas)				**3,661**	**1.2**	**4,462**

Notes: The JORC code does not permit the reporting of contained metal for Mineral Resources to avoid any perception that all Mineral Resources can be economically extracted.

Code 334 does not comply with JORC Mineral Resources (in situ quantities) but is reported as an "exploration target" Mineral Resources are inclusive of Ore Reserves.

NIB209 made no estimates of Ore Reserves. While the mine has been operating since 1999, management has relied on Mineral Resource estimates as an indication of Ore Reserves.

The locations of other mineral exploration licences in the local region surrounding the Guoyuan Gold Mine are shown in ***Figure 1.2.***



Additional "exploration targets" have been identified by the 209 Team in the Exploration Permit. These represent extensions to the red clay ore sections identified in the Mining Operation Permit ***(Figure 2.1)***. MMC have not validated these estimates however the exploration target areas are supported by drill holes and trenching and prospective dolomitic geology.

Preliminary estimates of red clay type ore in the Mulingba area were based on data from 8 trenches. The average depth of red clay type ore was 8.5m. Estimates of "exploration targets" are of the order of **1Mt** of red clay ore with an average gold grade of **1.7 g/t**.

Exploration potential of red clay type ore within the Exploration Permit is based on the full extent of the dolomitic basement area. Preliminary estimates of "exploration targets" are of the order of **4Mt** of red clay ore.

Identification of Carlin Type mineralisation in the Maiwoba area were based on 6 boreholes within an area of approximately 20,000 sq.m. This is the only area within the Exploration Permit that has been tested for deeper dolomite hosted mineralisation. Holes were drilled to depths of between 140m to 357m (totalling 1,479m). Gold mineralisation of >0.5 ppm was intersected in intervals of up to 60m. Preliminary estimates of Carlin type gold mineralisation is in the order of **2 to 2.5 Mt** with an average grade of **1.6 g/t**. These estimates are for gold mineralisation only and require a review of cut off grades (cog) to estimate economic ore as Mineral Resources.

Exploration potential of the deeper Carlin Type type mineralisation is significant within the Exploration Permit extends beyond the Maiwoba area. This is based on the full extent of the dolomitic basement area of approximately 350,000 m^2 within the Exploration Permit.

1.4 ORGANISATIONAL STRUCTURE

The relationships between the various parties involved in the transaction is summarised in ***Figure 1.3.***

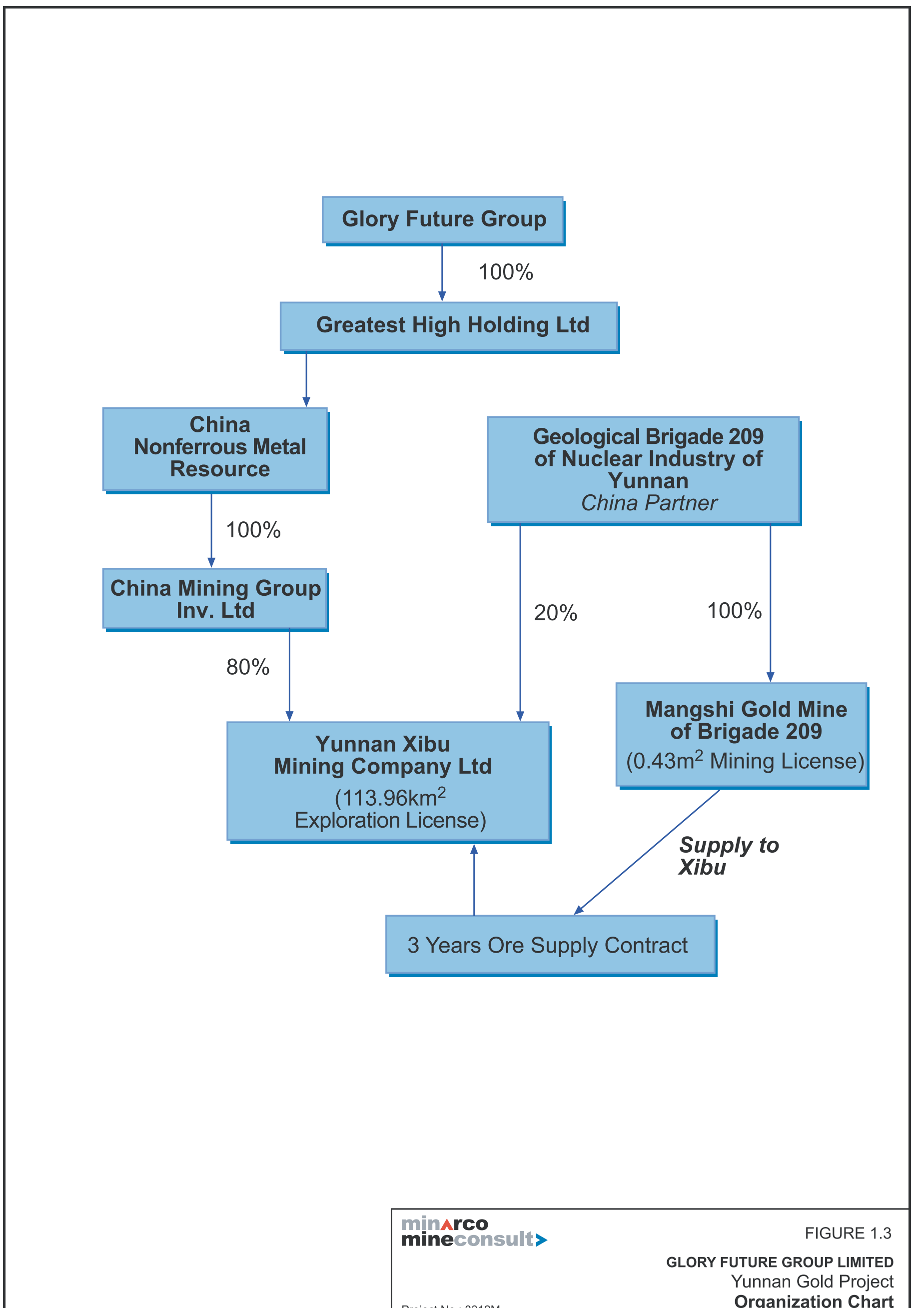


FIGURE 1.3
GLORY FUTURE GROUP LIMITED
Yunnan Gold Project
Organization Chart

2 GOLD PROJECT

The Luxi Gold Belt is located in the western part of Yunnan Province, in southwest China. The Luxi property is approximately 40 km west of the town of Mangshi (population 300,000), a regional centre serviced by domestic commercial jet aircraft. Mangshi is about 500 km west by paved highway from Kunming, the provincial capital, and 70 km east of the Myanmar border.

The project is located in the Luxi Gold Belt where exploration targets for gold were originally dolomite hosted "Carlin type" ***(Section 2.3)***. However gold ore identified in the Gouyuan deposit and the adjacent Sparton Project are in red clay ore infill covering the "karst" (dolomitic) surface. The source of gold in the red clay ore type may have been dolomitic hosted gold (Carlin Type). There have been no identified ore deposits or mining operations of the Carlin Type ore in the area to date, however these represent a significant deeper "exploration target".

The mining/exploration area is referred to with various names; Luxi, Maiwoba-Guoyuan-Mulingba or Upper Manggang Gold Mine. MMC have used the name Guoyuan Gold Mine in this report. The term Guoyuan Mine is given to include the Maiwoba, Guoyuan and Mulingba Ore Zones.

2.1 EXPLORATION AND MINING HISTORY

The exploration rights currently owned by Yunnan Xibu Mining Ltd ("YXML"), a Chinese Foreign Joint Enterprise founded in May 2004 were originally purchased by YXML in 2004.

The exploration history can generally be described as follows:

- **The 1970s** – The Yunnan Provincial Geological Bureau completed a 1:200,000 geological survey targeting the division of strata, magmatic activity, tectonic process, and mineral development.
- **1988** – The Nuclear Geological Investigation Bureau completed further investigative work outside of the current working zone (west), and discovered an ore zone which later became the Upper Manggang Gold Mine.
- **July to December 1992** – In the Mengjia Area, geochemical soil surveys were completed. Exploration for gold extended beyond the project range: NE in the Fapa Area; E in Baimeng Wang Area.
- **November 1993** – the "Exploration Report" of Guangling Po was submitted.
- **November 1995** – the "Detailed Geological Exploration Report" of Yangshi Shan was submitted, based on exploration by NIB209 in the Guoyuan and Maiwoba areas which identified two "ore sections" suitable for excavation. The Guoyuan and Maiwoba ore sections are the subject of this report).
- **July 2005** – the Geological Team 209 of Yunnan Province Nuclear Industry completed the "Universal – Survey Report of Gold Mine in Mengdan Area, Santai Mountain, Luxi City, Yunnan Province ("the 2005 Report").
- **Mid 2006** – the Geological Team 209 carried out further geological works including seismic works, new drill holes, shallow wells and numerous samples collection and testings".

The original exploration target in the local region was for nickel and a nickel project was outlined south west of the current Guoyuan Gold mine. However following discovery of intersections with economic gold grades, exploration targets changed to gold which subsequently lead to the current gold mining operations. The Nickel assets are not included in this review.

The first official gold mining commenced in 1999 following issuing of the Mining Operation Permit.

2.2 LAND TENURE AND MINERAL RIGHTS

The project contains both an Exploration Permit and a Mining Operation Permit. The Exploration Permit comprises an area of 113.96 km^2 and the Mining Operation Permit within the Exploration Permit comprises an area of 0.43 km^2 The Mining Operation Permit is not part of the Relevant Assets. The details of both the Exploration Permit and the Mining Operation Permit are summarised in ***Tables 2.1*** and ***2.2*** respectively.

Table 2.1 – Exploration Permit Details

Exploration Permit Number	No. T53120080402005958
Exploration Permit Holder	Yunnan Xibu Mining Ltd
Address	No. 182 Dongfeng Road, Kunming City Yunnan
Project Name	Prospecting for Gold Deposit at the area of Dagangba in Santaishan County Luxi City Yunnan
Plan No	G47e023010
Exploration Area	113.96 km^2
Valid Life	from 22/4/2008 to 22/4/2010

Table 2.2 – Mining Operation Permit Details

Mining Operation Permit Licence Number	No.5300009940016
Mining Operation Permit Holder	Nuclear Industry 209 Mangshi
Address	Santaishan county Luxi city Yunnan province
Name of Mine	Nuclear Industry 209 Mangshi
Economic Type	Collective Economy
Type of Deposit	Gold Mine
Mining Method	Open cut
Production Licence Limit	20 kt/year
Area of Mining	0.43 km^2
Valid Life	from 23/9/1999 to 23/9/2009
Mining Blocks Included	Maiwoba Ore Block, Guoyuan Ore Block

Note: The Mining Operation Permit is not part of the "Relevant Assets"

The owner of the Mining Operation Permit has advised that they have submitted an application to increase the production capacity of the Mining Operation Permit. MMC notes however that it is common practice in China for mines to produce in excess of their licensed limit, and MMC has observed this operating practice at numerous mines in China.[(18.10 2)(18.09 5)]

Although the Mining Operation Permit is contained within the perimeter of the Exploration Permit area (113.95km^2), it does not include the area of the Mining Operation Permit (0.43km^2). In this way. The two areas are mutually exclusive.

The location of the Exploration Permit and Mining Operation Permit as well as the Maiwoba and Guoyuan Ore Blocks are shown in ***Figure 2.1.***

2.3 GEOLOGY

The project is located in the Luxi Gold Belt where initial exploration targets for gold were dolomite hosted "Carlin Type".

There are some references to dolomitic hosted gold by NIB209 in the 2005 Report. These are referred to by NIB209 as "Carlin Type" deposits based on similar deposits in the USA (Nevada and Utah). Carlin-type deposits are characterized by relatively high Au/Ag, enrichment in As, Sb, Hg, and, and by the dominance of "invisible gold" as ions or submicron-sized particles in iron sulfide. Carlin Type deposits are generally but not always hosted by Palaeozoic carbonate rocks (dolomitic) and it has been proposed that mineralisation is controlled by deep-seated geological structures.

Support for the Carlin Type exploration strategy in the regional area is the presence of significant identified gold resources in adjacent lease areas (including the Luxi Gold Project as shown in ***Figure 1.2*** and owned by Sparton Resources). Sparton Resources reports from its website about the prospectivity of the Luxi Gold Deposit; spartonres.ca:

"The style of primary mineralization and geochemical signature in the Luxi is generally similar to a number of the well-known gold producing "trends" in Nevada, USA such as Carlin Trend, Pinson Getchell Trend, Round Mountain Trend, etc.) where over 8 million ounces of gold are produced annually.

Exploration show a continuous zone of bedrock gold mineralization with anomalous values ranging from 0.20 to 1.20 g/t gold in basal soil and rock chips in samples taken 20 metres apart. There is an IP anomaly directly associated with these anomalous gold values along the same 1.8-km long zone. These results have extended the zone of continuous bedrock mineralization and associated IP anomalies to nearly 3 km in strike length.

By September 2005, Sparton concluded that a possible mineral deposit ranging in size from 4.2 million to 7.6 million tonnes grading 1.5 to 1.2 g/t gold (1.0 g/t and 0.50 g/t gold cut-off grades respectively), is possible for an 800 metre section of the 3-km long Shangmangang-Mongmo Break. The contained gold could range from 210,000 to 320,000 ounces depending on the cut-off grade used. The estimate, based on about 1000 drill core assays from 34 drill holes and over 200 surface chip sample assays, is preliminary and not National Instrument 43-101 compliant."

However MMC note that: gold ore identified in the Gouyuan deposit and the adjacent Sparton Project are in red clay ore infill covering the "karst" (dolomitic) surface. The source of gold in the red clay ore type may have been dolomitic hosted gold (Carlin Type).

2.3.1 Exploration Permit Area

A number of other similar red clay type gold deposits of economic significance have been discovered in the geological region. The surrounding exploration leases containing some of these deposits are shown in ***Figure 1.2***. The geology of the Exploration Permit is shown in ***Figure 2.1***.

The Nuclear Industrial Team 209 prepared a report in 2006 "Application Report on Speeding up the Mengdan Area, Santai Shan County, Mangshi City Gold Mine Exploration," (2006 Report) which discussed the exploration potential within the Exploration Permit. NI 209 Geological Team based initial exploration potential on "Carlin type" gold deposits, with a preliminary estimates of contained gold, MMC advise that only red clay type ore has been identified and that Carlin Type deposits are only indicated as gold mineralisation.

Basement rocks in the region are Precambrian felsic gneisses. The basement is overlain by Palaeozoic to Mesozoic Age sediments consisting of various carbonaceous units separated by shale and quartzite layers.

The geological region has been broadly folded along roughly east-west axes and subjected to several periods of complex faulting, intrusion of felsic porphyry dykes and extrusion of younger basaltic volcanics. The fault structures may have been conduits (mineralisation pathways) for emplacement of quartz veins with gold and other mineralisation.

The terrain is tectonically young and in a state of active erosion. Valleys are steep sided and appear to be broadly conformable with the main direction of faulting and fold axes. Locally, valleys have been partially filled with recent alluvium above bottlenecks where the stream passes through a narrow section or gorge. With high rainfall and subtropical climate, this region is characterised by development of a thick regolith profile of generally red soils, particularly over calcareous (dolomitic) basement, which supports remnants of dense forests. With its steep, high relief terrain, thick soil cover, dense forests and agricultural developments, there are few geological outcrops.

The geological term "regolith" represents weathered and transported material overlying basement rocks.

The Upper Manggang Gold Mine Area is located within the upper red clay type gold ore bodies overlying the lower dolomitic hosted Carlin Type mineralisation. The prospective geology "exploration target" is above and within the area outlined by the dolomitic unit shown in ***Figure 2.1***. The dolomitic unit is controlled by fracture zone, with length over 6000m, average width between 200-300m, striking NE – SW extending into the Sparton Project area. The fracture zone extends for 3000m inside the Exploration Permit.

An exploration programme over the entire Exploration Permit is planned for 2008 which will include a geochemical soil survey for shallower red clay type deposits and geophysical surveys to identify deeper Carlin Type mineralisation. This will be followed by trenching, and drilling.

Based on previous geological works including shallow wells, drill holes, sample collection and testing, historical gold production in the Mining Operation Permit and regional geological reporting, the NI 209 Geological Team based initial exploration potential on "Carlin type" gold deposits, with a preliminary estimate of up to 60 to 100 t of contained gold, MMC advise that only red clay type ore has been identified and that Carlin Type deposits are only indicated as gold mineralisation. Estimates of contained gold in Carlin Type deposits by NI 209 Team are not acceptable for compliance reporting. At this stage there is insufficient geological information to validate any Mineral Resource estimation of Carlin Type deposits (even at a 334 Confidence level). Preliminary estimates of "exploration targets" (334) for Carlin type gold mineralisation is in the order of 2 Mt with an average grade of 1.6 g/t. Better exploration methods to identify the dolomitic hosted ore (Carlin Type) beneath the cover of clay regolith are recommended.

2.3.2 Orebody Characteristics

The orebody (gold mineralisation) is hosted in an eluvial red clay infill over a deeply and steeply weathered dolomitic "karst" surface. Current mining exposure and limited drilling data indicates a highly variable orebody thickness with consistent low grade gold values. Higher gold grades are indicated in the deep crevasses within the karst profile.

The red clay orebody is generally overlain with red clay soil which has low gold grades identified in the geochemical soil survey.

The red clay ore is comprised of red swelling clays with crystalline and rounded quartz fragments, sericite and kaolinite with dolomitic rock fragments, all of which has been oxidised and lateritised.

Gold mineralisation in the red clay ore may have been sourced from dolomitic hosted gold mineralisation (Carlin Type). This probably originated as late stage hydrothermal emplacements with quartz in faults and fractures, as evidenced by the inclusion of crystalline quartz in the eluvial material. Erosion and transport down to the regolith has produced the consistent low grade, widespread red clay ore type. In the 2005 Report, gold mineralisation is described as "sub micro-gold, with a secondary small amount of separated absorption gold", not amenable to hand panning (a common Australia term is 'flour gold'). This suggests a long period of physical working and re working within the soil profile together with a degree of solution and re-deposition of gold.

The highly irregular buried karst surface appears to have developed within a near surface dolomitic horizon in its present, dipping (sloping) attitude as the karst pinnacles ("stellae" in 2005 Report) appear to be substantially vertical (photographs in ***Figure's 2.2***, ***2.3*** and cross sections ***Figures 2.4*** and ***2.5***).

The topography and soil sample sites from recent exploration are shown in ***Figure 2.6***.

Figure 2.1 – Exploration Permit Area – Geology

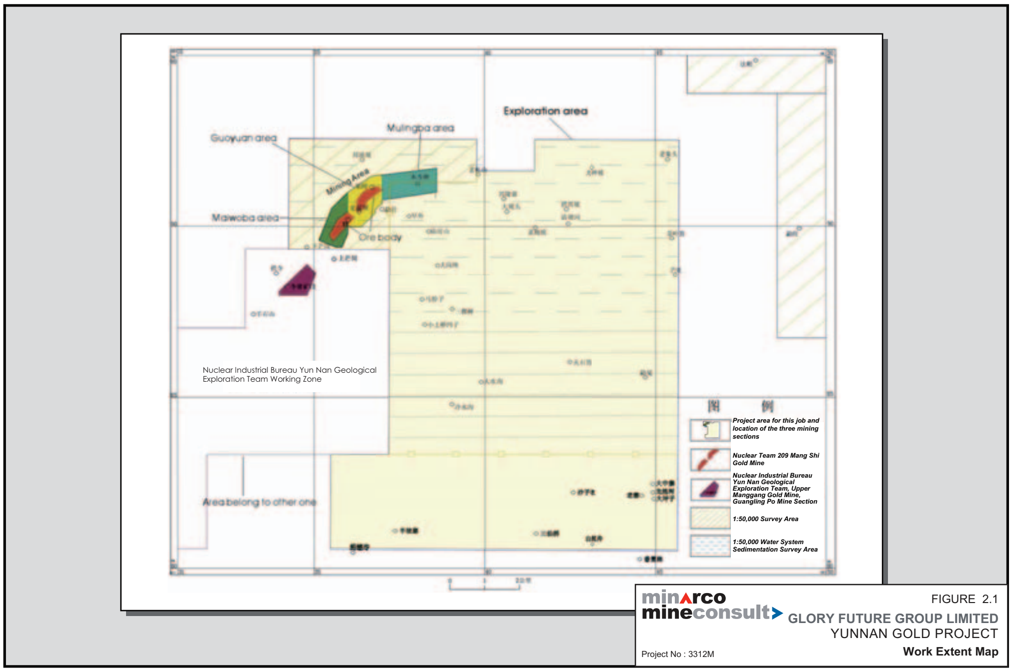


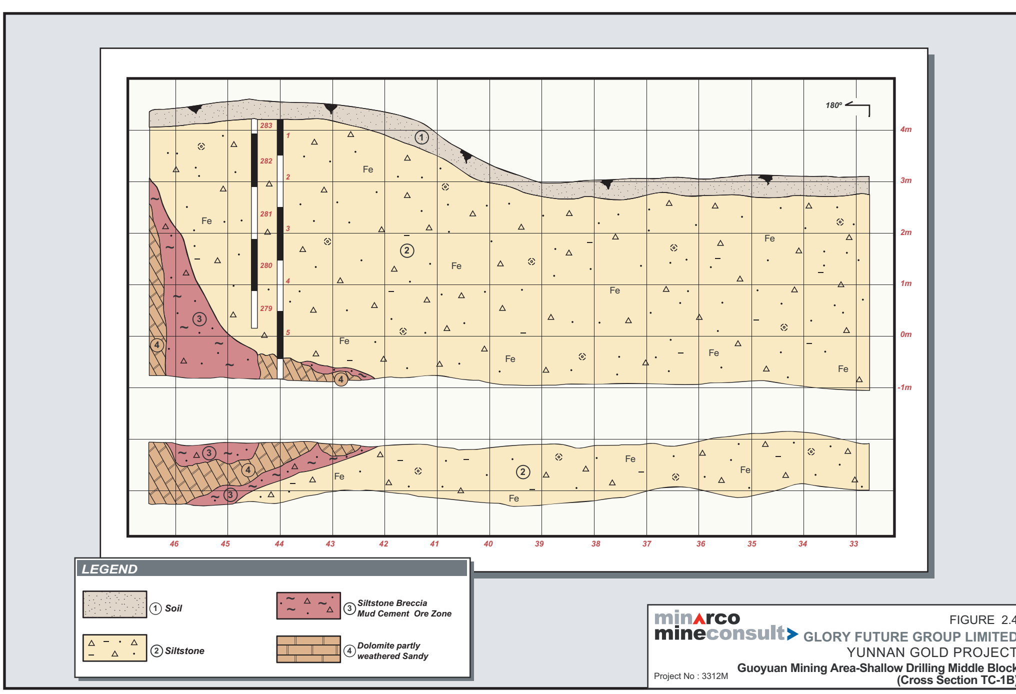
Figure 2.2 – Guoyuan Gold Operations – Partially Stripped Karst Surface 1

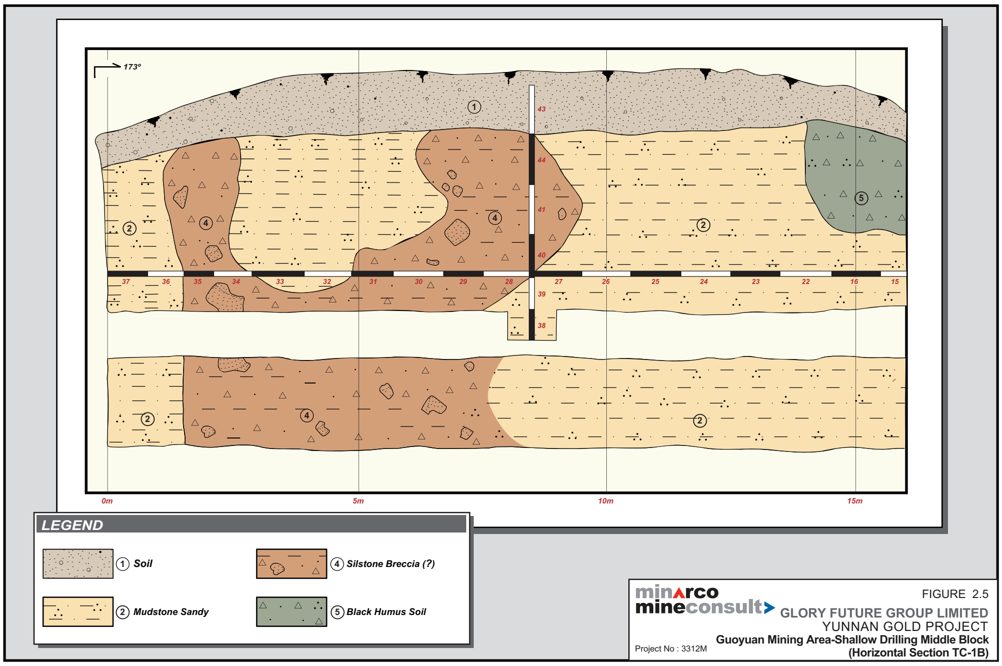
Guoyuan eluvial gold mine showing partially stripped karst surface of dolomite above access road looking north-west

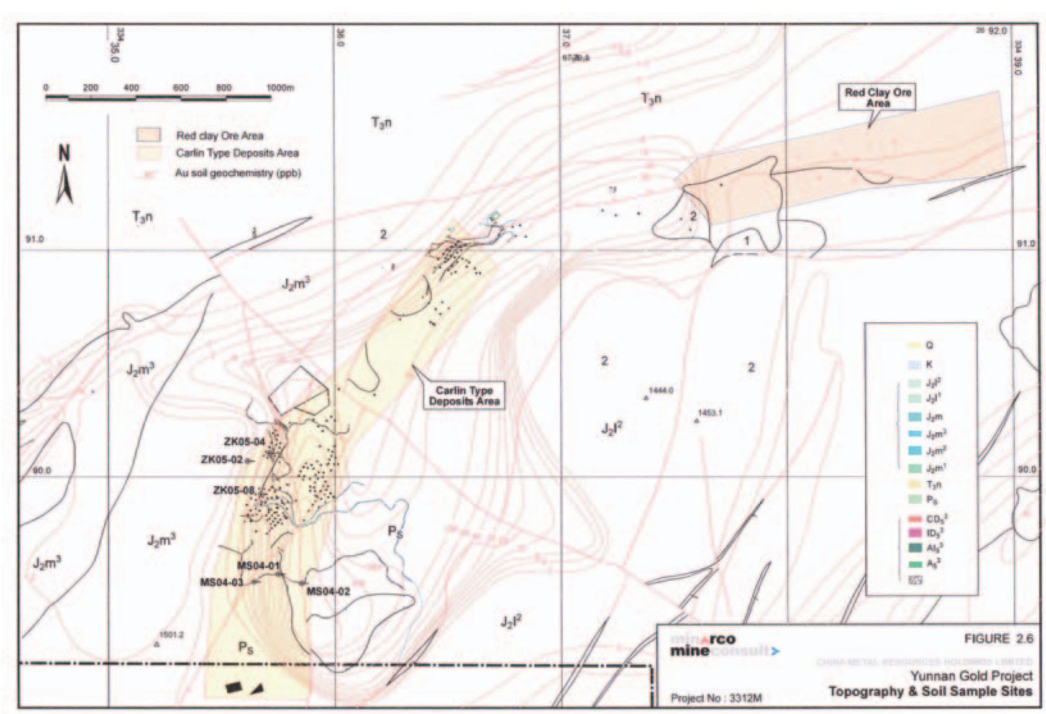
Figure 2.3 – Guoyuan Gold Operations – Partially Stripped Karst Surface 2

Guoyuan eluvial gold mine showing "red clay ore" partially stripped from dolomitic karst basement – grey

Some typical deposit cross sections are shown in ***Figures 2.4, 2.5*** and ***2.6.***(18.09 6b)(18.10 1)




173°
0m
5m
10m
15m
LEGEND
1 Soil
2 Mudstone Sandy
4 Silstone Breccia (?)
5 Black Humus Soil
minarco mineconsult
FIGURE 2.5
GLORY FUTURE GROUP LIMITED
YUNNAN GOLD PROJECT
Guoyuan Mining Area-Shallow Drilling Middle Block
(Horizontal Section TC-1B)
Project No : 3312M


0 200 400 600 800 1000m
Red clay Ore Area
Carlin Type Deposits Area
Au soil geochemistry (ppb)
N
Red Clay Ore Area
Carlin Type Deposits Area
ZK05-04
ZK05-02
ZK05-08
MS04-01
MS04-03
MS04-02
minarco mineconsult
FIGURE 2.6
Yunnan Gold Project
Topography & Soil Sample Sites
Project No : 3312M

2.4 MINERAL RESOURCES

Mineral Resources have been referred in numerous reports from 2005 to 2008 by NIB209. These have been estimated and reported by NIB209 in accordance with the Chinese Resource Reporting Standards (refer to ***Annexure C***). NIB209 made no estimates of Ore Reserves. While the mine has been operating since 1999, management has relied on Mineral Resource estimates as an indication of Ore Reserves for operational purposes.

Historical and current reporting of Mineral Resources by Team 209 include estimates of contained gold metal. While this is reasonable to indicate total potential the reporting of contained gold metal may be misleading. The JORC code does not permit the reporting of contained metal for Mineral Resources to avoid any perception that all Mineral Resources can be economically extracted.

The JORC Code recommends for transparency in reporting, that contained metal should only be reported in Ore Reserves to represent economically extractable quantities. Ore Reserves apply relevant modifying factors including mining layout, pit shells and recovery factors to Mineral Resources and are always less than total Mineral Resources.

MMC refer to JORC equivalent terms in this report. In MMC's opinion the Chinese estimates are reasonable, however without validation of exploration and estimation methods, these estimates do not comply with JORC guidelines. Therefore, MMC have used the following terms:

Non JORC Mineral Resources	are referred to as	in situ quantities
Non JORC ORE Reserves	are referred to as	mineable quantities

2.4.1 Points of Observation

MMC was advised that previous joint venture partners (JVP) had spent several million RMB on exploration of the region. Exploration included some diamond holes. However the previous JVP's had taken possession of most data and therefore was not available to MMC for review.

Regional exploration included a geochemical soil survey (***Figure 2.1***). Samples were only to 30 cm deep and represent the surface regolith rather than the red clay ore type. However results identified an area of higher gold anomalies over the dolomitic basement unit. The results of this exploration method provides a good indicator for prospective red clay ore types.

In MMC's opinion, the best points of observation are from exposed mining faces. The mining faces provide the best indicators of orebody characteristics including geological variability and gold grade trends. A channel sampling programme has been undertaken by the current operators to indicate run of mine (ROM) ore grades.

The most numerous points of observation are the 48 shallow trenches and pits in the red clay regolith. (***Figure 2.1***). These together with the mining faces provide the data to estimate quantities of the red clay ore type.

Carlin Type mineralisation can only be identified by deeper drilling into the basement karst surface. Data from six (6) diamond drill holes from the Maiwoba area within the Exploration Permit. Drill holes report intersections of low grade gold mineralisation in the order of 70 to 90m with gold grade values ranging up to 4.34 g/t and averaging in the order of 1.2 to 1.5 g/t.

Points of Observation are summarised in ***Table 2.3***.

Table 2.3 – Points of Observation

Item	Units	Dimensions	Comments
Exploratory Trench	m^3	1,138	Manual Excavation
Shallow Shaft	m	2,015	Manual Excavation
Fluting Sampling	piece	2,250	
Core Sampling	piece	864	
Sample Testing	m	3,114	
Geochemical survey			Exploration Permit area
Drilling	m	1,4,79	6 holes in Maiwoba Area (Carlin type Targets)

2.4.2 Estimation Parameters

Exploration of the red clay orebody has identified ore sections within the Mining Operation Permit with a highly variable thickness of between 3 m to 15 m averaging 7m.

The dimensions of the orebody are difficult to estimate due to the highly irregular bottom surface of the red clay orebody as infill in the crevasses of the karst surface. Due this highly variable geology it is likely that drilling could only define resources to Indicated status. In JORC standards, Indicated Resources have sufficient geological confidence as the basis of reliable mine planning and feasibility studies.

Estimation parameters used by NIB 209 were:

Marginal cut off grade (cog)	0.5 g/t
Industrial grade (cog)	1.0 g/t
Max vertical thickness	25m
Red clay ore density	1.9 t/bcm
Average gold grades	weighted average of gold grades over the intersection
Silicified dolomite ore density	2.3 t/bcm “Carlin type ore”

NIB 209 used the manual polygonal method of estimation (area x thickness x ore density). Weighted averages gold grades in polygonal areas.(18.09 6e)

In MMC's opinion these estimation methods are reasonable. However the biggest issue is the lack of reliable volume estimations of the red clay ore type due to the very high variance of ore thickness.(18.05)

2.4.3 Validation

MMC made a brief validation of Mineral Resource estimates which included:

- Relevance and reasonableness of NIB209 exploration methods and estimates
  Exploration methods – relevant and reasonable
  Drill hole assays – relevant and reasonable
  Pit sampling methods – reasonable and considered the best data
  Manual polygonal estimation techniques – appropriate and reasonable

- Independent mass balance
  indicative red clay ore density – 1.8 t/bcm in situ (AusIMM Field Geologists Manual)

Mass Balance Assumptions

Mining Operation Permit area	0.43 sq km
Proportion of identified ore	10% (Mulingba and Maiwoba Ore Sections)
Average depth	6m
Ore density	1.8 t/bcm
Average grade	1.2 to 1.5 g/t

The mass balance is of the order of 1.6 Mt of ore material. This is supported by a back estimate of total contained gold divided by the average gold grade. The "exploration targets" have the order of 3 Mt of ore material.

The total mass balance including "exploration targets" may be of the order of 4 Mt to 4.5 Mt which equates to the total Mining Operation Permit area or a greater average depth of the red clay ore.

2.4.4 Historical Estimates

Various estimates of Mineral Resources have been reported during the life of the project. These are shown in ***Table 2.4*** and ***2.5*** as comparative validation and to indicate the source and progression of reported quantities.

Table 2.4 – Historical Reporting of Insitu Quantities (July 2005)

Deposit Area	Resource Category Chinese Code	Average Gold Grade (g/t)	Contained Gold (kg)
Mulingba	2S22	1.69	2,724
	332	2.72	255
	333	1.32	331
Total		**2.06**	**3,310**
Maiwoba	2S22	1.68	345
	332	2.03	58
	333	1.78	91
Total		**1.72**	**494**

Note: The JORC code does not permit the reporting of contained metal for Mineral Resources to avoid any perception that all Mineral Resources can be economically extracted

Table 2.5 – Historical Reporting of Insitu Quantities (as at February 2006)

Ore Section	Orebody Type	Chinese Code	JORC Equivalent	Gold Ore (kt)	Average Grade Gold (g/t)	Contained Gold (kg)
Guoyuan Mulingba Ore Section	Industrial Grade Ore	332	Indicated	20	1.2	24
		333	Inferred	99	1.3	131
	Low Grade Ore	2S22	Indicated (Marginal)	223	0.7	155
Sub Total (Low Grade + High Grade)				**342**	**0.9**	**310**
Guoyuan Maiwoba Ore Section	Industrial Grade Ore	332	Indicated	4	2.0	9
		333	Inferred	25	1.8	41
	Low Grade Ore	2S22	Indicated (Marginal)	66	0.7	45
Sub Total (Low Grade + High Grade)				**95**	**1.0**	**94**
Total (Low Grade + High Grade)		**332+333+2S22**		**437**	**0.9**	**404**

Notes: The JORC code does not permit the reporting of contained metal for Mineral Resources to avoid any perception that all Mineral Resources can be economically extracted Mineral Resources are inclusive of Ore Reserves Estimated by NIB209

2.4.5 Mineral Resource Estimates

The red clay ore type infilling over a very irregular karst surface limits the confidence of geological interpretation. This also limits Mineral Resource estimates to inferred and indicated status.

The estimate within the Mining Operation Permit was prepared by NIB209 in January 2008. This estimate is the basis for MMC's reporting in this ITR ***(Table 2.6)***.

Table 2.6 – Mining Operation Permit – In Situ Quantities (January 2008)

Mining Right – Ore Sections	Orebody Type	Chinese Code	JORC Equivalent	Ore (kt)	Weighted Average Grade (g/t)	Contained Gold (kg)
Mulingba Ore Section	Industrial Grade Ore	333	Inferred	98	1.4	137
Maiwoba Ore Section	Industrial Grade Ore	332	Indicated	353	1.5	540
		333	Inferred	842	1.4	1,163
Guoyuan Ore Section	Industrial Grade Ore	332	Indicated	50	1.7	85
		333	Inferred	291	1.9	560
Mining Operation Permit Total in situ quantities				1,634	1.5	2,485

334 (Exploration Targets)

Mining Operation Permit – Ore Sections	Orebody Type	Chinese Code	JORC Equivalent	Ore (kt)	Weighted Average Grade(g/t)	Contained Gold (kg)
Mulingba Ore Section	Exploration Target	334	Exploration Target	1,266	1.0	1,266
Maiwoba Ore Section	Exploration Target	334	Exploration Target	151	1.7	256
Guoyuan Ore Section	Exploration Target	334	Exploration Target	2,244	1.3	2,940
Mining Operation Permit Total "exploration targets"				3,661	1.2	4,462

Note: The JORC code does not permit the reporting of contained metal for Mineral Resources to avoid any perception that all Mineral Resources can be economically extracted Mineral Resources are inclusive of Ore Reserves Estimated by NIB209

A graphical representation of the proportions of resource categories is given in ***Figure 2.7***.

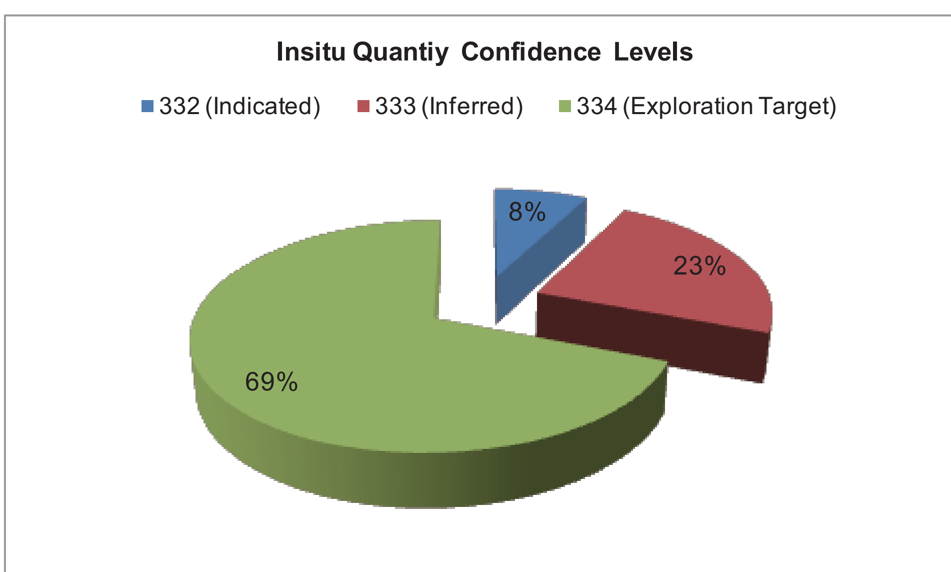
Additional "exploration targets" have been identified by the 209 Team in the Exploration Permit. These represent extensions to the red clay ore sections identified in the Mining Operation Permit (***Figure 2.1***). MMC have not validated these estimates however the exploration target areas are supported by drill holes and trenching and prospective dolomitic geology.

Preliminary estimates of red clay type ore in the Mulingba area were based on data from 8 trenches. The average depth of red clay type ore was 8.5m. Estimates of "exploration targets" are of the order of **1 Mt** of red clay ore with an average gold grade of **1.7 g/t**. Exploration potential of red clay type ore within the Exploration Permit is based on the full extent of the dolomitic basement area. Preliminary estimates of "exploration targets" are of the order of **4 Mt** of red clay ore.

Identification of Carlin Type mineralisation in the Maiwoba area was based on 6 boreholes within an area of approximately 20,000 km^2. This is the only area within the Exploration Permit that has been tested for deeper dolomite hosted mineralisation. Holes were drilled to depths of between 140 m to 357 m (totalling 1,479 m). Gold mineralisation of >0.5 ppm was intersected in intervals of up to 60 m. Preliminary estimates of Carlin type gold mineralisation is in the order of **2 to 2.5 Mt** with an average grade of **1.6 g/t**. These estimates are for gold mineralisation only and require a review of cut off grades (cog) to estimate economic ore as Mineral Resources.

Exploration potential of the deeper Carlin Type type mineralisation is significant within the Exploration Permit extends beyond the Maiwoba area. This is based on the full extent of the dolomitic basement area of approximately 350,000 m^2 within the Exploration Permit.

Figure 2.7 - Resource Estimate Confidence



A description of the Chinese Resource reporting standard and equivalent JORC terms is provided in ***Annexure C***.

2.5 ORE RESERVES

NIB209 made no estimates of Ore Reserves. While the mine has been operating since 1999, management has relied on Mineral Resource estimates as an indication of Ore Reserves.

The JORC Code requires that Ore Reserve estimates must apply relevant modifying factors including mining layout, pit shells and recovery factors to Mineral Resources. Ore Reserves are always less than total Mineral Resources. The JORC Code recommends for transparency in reporting, that contained metal should only be reported in Ore Reserves to represent economically extractable quantities.

This type of orebody is suited to small scale mining methods where the high variability of shape can be fully extracted. This will also allow an inspection of the orebody characteristics. Lower production rates will enable the extraction of small high grade pockets which are indicated at the base of the crevasses in the karst surface.

In MMC's opinion, the current use of Mineral Resources (in situ quantities) as a guide for Ore Reserves is a reasonable management tool for this style of orebody and at the low levels of production. Although Ore Reserves have not been estimated, it is likely with low production rates that most of the in situ quantities can be extracted.

2.6 MINING

Yunnan Xibu Mining Industry Ltd has entered into a contract where Lu Xi City Nuclear Industrial NIB209 will perform the open pit mining operations to supply a specified ore tonnage and grade to the appropriate leaching pads.

The mine has been operating since 2001, and since this time has extracted a total of approximately 1 tonne of gold. No other production records are available.[18.09 6f]

In MMC's opinion the mining contract and production plan include total in situ quantities and "exploration targets" of the order of 6Mt. The reliability of the mine plan therefore is contingent on the identification of additional resources.

The run of mine (ROM) ore supply contract is shown in ***Table 2.7***. Current conditions of the Mining Operation Permit limit extraction to 20 ktpa, however the contract and plan are well in excess of this limit. MMC makes no further comment on these issues as this is a legal issue and is being reviewed by the company's legal due diligence team.

As advised by the legal adviser to the Company as to PRC laws, current production and plans in excess of production limits are common in mining practice in the PRC and the Vendor confirms that the PRC Partner is applying to the relevant authorities for the relevant amendment to its mining operation permit.

Table 2.7 – ROM Ore Contract

Contract	Unit	2008	2009	2010
Ore	kt	1,500	2,250	3,000
Grade	Gold g/t	1.7	1.7	1.7
Unit Cost	RMB / ROM tonne	12	12	12

The company's planned production from 2008 to 2010 is shown in **Table 2.8**.(18.10 1)(18.10 3)

Table 2.8 – Production Plan

Area/Year	2008		2009		2010		
	Tonnes (kt)	Grade (g/t)	Tonnes (kt)	Grade (g/t)	Tonnes (kt)	Grade (g/t)	Total Ore (kt)
Maiwoba	750	1.2	1,100	1.2	1,800	1.2	**3,650**
Mulingba			250	1	400	1	**650**
Guoyuan	750	1.4	900	1.4	800	1.4	**2450**
Total	1,500	1.3	2,250	1.25	3,000	1.22	**6,750**

Note 1: Table supplied by Yunnan Xibu Mining

Note 2: Product Gold is based on recovery of 75% (P/yield) although MMC notes that the Company is targeting higher recoveries closer to 80% (T/yield)

2.6.1 Mining Method

The orebody is located within deep and steep crevasses of a dolomitic karst surface. Mining of red clay ore, which overlies a weathered dolomitic karst surface, is by excavator and manual earth moving methods with particular emphasis on recovery of deeper material within the karst crevasses which carry higher gold values. The company has assumed the orebody is economical and above the ore cut off grade (cog).

Ore is excavated between these thin dolomite pillars by small excavators (Hitachi 230, 25t Class Excavator) and hauled by 20 tonne trucks. There is no waste placed in dumps as pillars will remain standing and the ore contained in the red swelling clays can be dug freely without the need for blasting.

The ore will be mined on simple 1.5 m to 2 m benches progressively from top to bottom of the karst formation. The ore will then be transported around the ends of the pillars for a distance ranging from 500 m to 1.5 km depending on the position of each mining face. A photo showing the typical mining operations is show in ***Figure 2.7***.

MMC notes that similar with many other mining operations in China, the mining method adopted does not use any formal mining plans, nor does it rely on any ore sampling techniques. The production plan relies on the consistency of gold grade above the cog.(18.09 6e)(18.09 6f)

Figure 2.7 – Excavator Mining Ore

2.6.2 Equipment Capacity

Table 2.9 contains a description of the main mining equipment that will be used to by the contractor to perform the mining work for the balance of the 3 year contract.

Table 2.9 – Contractor Equipment Fleet

Equipment/Year	**2008**	**2009**	**2010**
Hitachi 230 Excavators	1	2	3
Modern 225 Excavators	1	1	1
20 Tonne Trucks	8	14	20
Dozers	3	3	4

Note 1: Table supplied by Yunnan Xibu Mining

MMC has validated the fleet capacity based on a number of assumptions **(Table 2.10)** to determine the reasonableness of the estimates put forward by management. The conclusions from the exercise are that it will be quite challenging for the contractor to meet production targets given the fleet size outlined in **Table 2.9**. To achieve the production targets with the proposed equipment, the equipment must be maintained and operated efficiently. The lower utilisation rate of 81%~83% represents expected rainfall that will occur in the sub-tropical region. This risk however can be mitigated by utilising additional equipment, which MMC understands to be widely available in the local region.

Table 2.10 – Typical Excavation Production Rate (Different Availabilities/ Utilizations)

Excavator Class	25 tonne (case 1)	25 tonne (case 2)
Bucket Size	1 cm	1 cm
Total Working Days	310	310
Mechanical Availability	*85%*	*90%*
Operating Availability	*86%*	*89%*
Utilisation	*81%*	*83%*
Production (tpa)	640,000	793,500

Insufficient mine planning has been completed to determine the practicability of achieving the production targets, however working room and access should not be an issue due to the small production quantities and the mobile inherent flexibility derived from using small scale equipment.

The contractor performing the mining operation work has not been audited by MMC (as this is outside MMC's scope of work), however based on site observations from the work being conducted at the leaching pads, an efficient digging method was observed with a good size bench and a dozer cleaning the loading area.

2.6.3 Mining Contract

The contract cost to mine the ore is 12 RMB per ore tonne however this excludes any costs relating to the maintenance and upgrading of the road from the Mulingba area to the leaching pads in Guoyuan. Based on a bulk density of 2, a mining cost of 12 RMB per ore tonne equates to 24 RMB per BCM which MMC considers sufficiently high (~$3.50 USD/BCM) for mining and hauling the ore to the leaching pad, such that the contractor should be able to make a reasonable profit. However, since the contractor is also the current Mining Operation Permit holder, this price currently includes a premium for the sale of the ore.

From site observations, the ore from the Mulingba area will need to be hauled to the Guoyuan leaching pads. This route requires a 3.5 km haul up a 10%-12% grade single lane ramp. MMC suggest that capital investment will be required in the second year (2009) to upgrade this road to allow efficient and safe dual lane haulage to achieve the desired capacity.

Table 2.11 below illustrates the capacity of the leaching pads.

Table 2.11 – Leaching Pad Requirements

Year	2008			2009			2010			
Area	Guoyuan	Maiwoba	Total	Guoyuan	Maiwoba	Total	Guoyuan	Mulingba	Maiwoba	Total
No of Pads	5	5		7	7		7	3	7	
No of Days Per Cycle	45	45		45	45		45	45	45	
Cycles Per Year	8	8		8	8		8	8	8	
Tonnes Per Cycle	22,000	22,000		22,000	22,000		22,000	30,000	22,000	
Max Ore Processed (ktpa)	**880**	**880**	**1,760**	**1,232**	**1,232**	**2,464**	**1,232**	**720**	**1,232**	**3,184**

Note: Based on discussions with management

Table 2.9 illustrates the expansion requirements of the leaching pads. The dimensions of the enlarged pads in the Guoyuan area will need to be confirmed to ensure similar processing times as the 22,000 tonne pads.

2.6.4 Infrastructure

Table 2.12 describes the current status of the infrastructure under construction, all of which is expected to be completed prior to the end of April 2008.

Table 2.12 – Infrastructure Completion Process

Infrastructure Item	Construction Period	Completion (%)
Water	Project Year 1	60
Power	Project Year 1	100
Highway	Project Year 1	100
Communication	Project Year 1	100
Community & Its Facility	Project Year 1	50

Note: Table Provided by Yunnan Gold

Transportation

There are currently two access roads to the mine site to provide, one is a highway to Mangshi and the other is a highway that will be built to Santai Shan. These roads will assist in providing efficient inbound and outbound logistical operations.

Power

There is a substation located approximately 3 km from the mine site which is capable of supplying the required 220 kv of electricity to power the process facilities and other infrastructure.

Water

The main water supply is located 3km from the mine site. Piping has been constructed to supply both water for consumption and industrial purposes.

2.7 MINING RISKS

The key mining risks for the project relates to geological uncertainty associated with the limited exploration, and associated difficulties in quantifying resource quantities due to the deposit type. Other risks, which MMC consider need to be considered, are as follows:

- **Achievement of Production Targets** – the current production targets are optimistic and their achievement will require immediate additional geological works including drilling to upgrade the insitu quantities and confidence.

- **Licensed Production Limits** – The current Mining Operation Permit (which is not part of this transaction, and is owned by others), which expires on 23rd September, 2009, regulates ore extraction of 20,000 tonnes per annum. The production targets significantly exceed the current conditions of the Mining Operation Permit. MMC notes however that the Company is in the process of upgrading the mining capacity of the existing Mining Operation Permit which when completed, will eliminate this risk.

- **Geological Risk** – Highly variable thickness of the orebody limits geological confidence of interpretation and estimates of Mineral Resources.

- **Achievement of Target Production Grades** – The mining contract stipulates delivery of ore at an average grade of not less than 1.7g/t. MMC notes that this is above the current average resource grade of 1.5 g/t for the 332 and 333 resource areas, and 1.2 g/t for the exploration targets (this risk will be better understood following completion of further exploration). The contractor has accepted geological risk as they are required to deliver a certain tonnage at a specified grade. There are no clauses in the mining contract that deal with geological variability. It is not common practice in the western world for a contractor to accept geological risk, without being paid a substantial fee for doing so.

- **Ore Sampling Technique** – Yunnan Xibu Mining intends to monitor the grade of the ore by taking a small sample of every truck within a sampling group of 50 trucks to determine the average ore grade. It is recommend that ore sampling also be performed at the loading point through trench sampling to ensure ore below the cut off grade is not mined.

- **Leaching Pads Reaching Capacity** – The number of leaching pads at Guoyuan area will be running at maximum capacity for the 1st year and extra pads will be required to be established in the 2nd and 3rd year.

2.8 MINING OPPORTUNITIES

The key mining opportunities are as follows:

- The red clay ore deposit is located between the dolomite pillars so small scale equipment is the most suitable method of achieving higher mining recoveries. There could be an opportunity for hydro mining in the future because there is a clear distinction between the hard dolomite pillars and the soft red clay. This will require better definition of gold content within ore body as hydraulic mining will require a more capital intensive down stream processing in order to recover sub micron gold however higher recovery rates are possible by this method; and

- There could be an opportunity to increase the value of the project by high grading the deposits by preferentially mining the Guoyuan deposit and delay mining the Mulingba deposit until the 3rd year. This will also defer the capital costs of upgrading the haul road to dual lane haulage for another year. Apart from the Guoyuan ore being of higher grade, the average haulage distance to the leaching pads is significantly less thus high grading this area will also result in lower mining costs.

3 MINERAL PROCESSING

3.1 PROCESSING BACKGROUND

There are numerous gold ore processing options available to treat gold ore including, gravity, flotation, amalgam, cyanidation, leaching, bioleaching etc. The selection of the most appropriate method depends primarily on the ore type and properties as well as economics and local levels of technical skill.

In the case of the Guoyuan project, due to the gold formation being "very fine – flour type", the most appropriate methods of gold recovery would be either cyanide leaching or gravity separation. The best combination will be primarily determined by the size of the gold particles with gold particles of greater than 1 micron being more efficiently recovered by gravity means such as Nelson or Falcon Concentrators and particles less than 1 micron by leaching. A combination of the two processes may also prove beneficial depending on the size grading.

The Cyanide Leaching method has a short production period, is low cost, simple, low energy and is not highly labour intensive, but the downside is the gold recovery is often low (but not always), and limited by the permeability of the ore material, and hence the access of the solution to the gold within the leach heap.

Gravity Separation is suitable as an alternative to cyanide leaching particularly if the swelling clays adversely affect the recoveries of the gold by lowering the heap permeability. Gold recovery using Nelson or Falcon Concentrators is often up to 95% on flour gold if either hydraulic mining or full dissolution of the clays occurs prior to feeding to the concentrators. Gravity separation is performed on a fully dispersed ore with the ore being fed into a centrifugal concentrator which uses fluidisation of the bed and operates at approximately 60 gravities in order to capture gold particles down to approximately 1 micron. This process has a higher capital cost than a heap leach which is compensated by a greater recovery of plus 1 micron gold.

Currently processing is by heap leach methods. The process can be described as follows:

Processing Description

The overall processing can be described by 5 steps as follows:

1. Mining, Transporting and Crushing

2. Heap Leaching

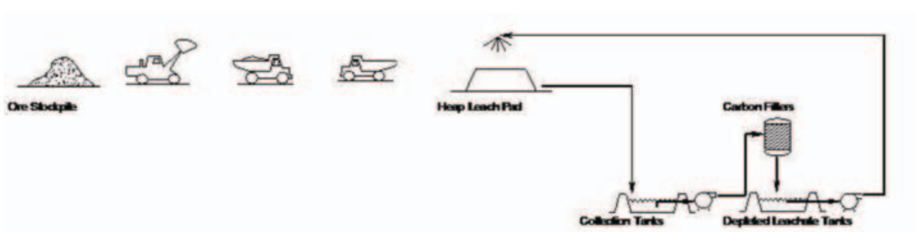
3. Sodium Cyanide Spraying

4. Collection

5. Active Carbon Absorption

These five steps are shown visually in ***Figure 3.1*** and discussed below.

Figure 3.1 – Processing Schematic



A typical view of a gold leach pad is shown in ***Figure 3.2***.

Figure 3.2 – Guoyan Gold Leach Pad

3.1.1 Mine Transporting and Crushing

The ore is excavated using hydraulic excavators with supplementary excavation undertaken by hand to increase the ore recovery. The raw ore is then crushed to less than 2 cm prior to emplacement on the leach pads.

3.1.2 Heap Leaching

The crushed raw ore is transported to the leach pad where it is emplaced in dumps to a maximum height of approximately 3 m. The heap has a gravel base (approximately 15 cm thick) on top of the plastic membrane in order to protect the membrane and improve drainage. Since the top of the heap is compacted by equipment movement etc; the heap's permeability is reduced. So after ore transport has been finished, excavators are used to loosen the top and restore the permeability. The loosening depth is 1.5 to 2.0 m. After that approximately 15 to 20 cm of crushed stones are emplaced onto the top of the heap to stop the leachate solution being sprayed directly onto the ore which would cause soil hardening and create preferential paths and heap runoff.

The size of the Leach Pad area was decided based on the topography at Guoyuan. At the time of the site visit, there was 5 leach pads each with a base surface area of approximately 6,000 m^2 x 3 metres high (insitu density of 1.2 to 1.25) (22,000 t). Following compaction the leach pads have a sloping base with an angle of 3 to 5 degrees to promote flow of the leachate solution to the recovery ponds. The leach pad is lined with a thin (thought to be 1 to 1.5mm thick) plastic sheet, covered by approximately 15 cm of gravel.

Rainfall onto the leach pad will affect both the strength and quantity of the leachate and needs to be considered in both tankage and spray design. MMC notes that the Company is aware of this issue, and currently appears to be dealing with effectively.

Pipes are arranged on top of pile, with the installation of spray headers to disperse the leach solution over the heap.

3.1.3 Sodium Cyanide spraying

Initially the ore is washed with water and the heap pH is increased using lime. When the solution flowing out from the ore heap has a pH of 9 to 10, the cyanide solution is then introduced to leach the heap. The crushed dolomite used as a dispersing capping will probably aid in the pH control.

3.1.4 Active Carbon Absorption

After sodium cyanide spraying onto the ore, the solution will contain gold ("pregnant solution"). This solution is then passed through the activated carbon, which absorbs gold from the solution. After this procedure the solution will contain little to no gold, and it is called "deficient liquid". When the deficient liquid has a gold content above a threshold, indicating that the activated carbon is becoming saturated and needs to be replaced, the gold bearing carbon is replaced with the original sent for stripping and gold recovery off site.

The stripping process can generally be described as follows:

- This stripping is usually carried out using a hot (135 degree) solution of cyanide and sodium hydroxide for approximately 6 to 8 hours.
- The carbon is then reactivated in a kiln at approximately 125 degrees.
- The cyanide is destroyed by adding an oxidant (typically hypochloride) with the gold electroplated out.

3.1.5 Future Leach Pads

The leach pads (of 22,000t capacity) at Guoyuan have a cycle time of 45 days (8 cycles per pad per year) giving a total capacity per leach pad of 880,000 tonnes per annum. On this basis there is a requirement for a further 8 pads of equivalent size with each pad having an approximate capital cost of RMB800,000 including tankage and filters. MMC suggest that the pads should be built at Maiwoba as this is where the bulk of the ore is located.

3.1.6 Capital Costs

The company has prepared capital estimates for the period from 2008 to 2011. These estimates have been prepared based on consideration of the targeted production (***Table 3.1***). The capital costs have not been forecast beyond 2011 because this is beyond the company's current planning horizon.

MMC has completed a high level review of these estimates and considers them to be reasonable.

Table 3.1 – Planned Capital Expenditure

Year	Item	Expenditure ('000 RMB)
2008	100Mu Land Expropriation	2,500
	Minefield & Excavation Facility	0
	a. 3km road maintenance (500k RMB/km)	1,500
	b. 2 Excavators, 2 bulldozers, 2 loaders, 8 trucks	6,000
	Power Facility	1,300
	5 Heap-leaching fields	
	a. water supply system & sink installation	2,000
	b. pump, pipeline, absorption tower, bottom mat	2,200
	Laboratory & facility	1,500
	Dorm, warehouse, office, and other facilities	4,000
	Wage & welfare (14%)/1st Period Construction	600
	Office facility/1st Period Construction	500
	TOTAL	**22,100**
2009	160Mu Land Expropriation	4,000
	Minefield & newly added excavation facilities	4,500
	3 Newly added heap-leaching fields	0
	a. water supply system & sink installation	900
	b. pump, pipeline, absorption tower, bottom mat	900
	TOTAL	**10,300**
2010	200Mu Land Expropriation	5,000
	Minefield & newly added excavation facilities	4,500
	2 Newly added heap-leaching fields	0
	a. water supply system & sink installation	500
	b. pump, pipeline, absorption tower, bottom mat	500
	TOTAL	**10,500**

Year	Item	Expenditure ('000 RMB)
2011	300Mu Land Expropriation	7,500
	Minefield & newly added excavation facilities	4,500
	5 Newly added heap-leaching fields	0
	a. water supply system & sink installation	1,250
	b. pump, pipeline, absorption tower, bottom mat	1,250
	Dorm, warehouse, office, and other facilities	2,000
	TOTAL	**16,500**
5	300Mu Land Expropriation	7,500
	Minefield & newly added excavation facilities	4,500
	5 Newly added heap-leaching fields	0
	a. water supply system & sink installation	1,250
	b. pump, pipeline, absorption tower, bottom mat	1,250
	Dorm, warehouse, office, and other facilities	1,000
	TOTAL	**15,500**
6	300Mu Land Expropriation (8t Gold/a)	7,500
7	300Mu Land Expropriation (8t Gold/a)	7,500
8	300Mu Land Expropriation (8t Gold/a)	7,500
9	300Mu Land Expropriation (8t Gold/a)	7,500
10	300Mu Land Expropriation (8t Gold/a)	7,500

Given the low resource confidence, and the limited planning which supports the companies mine plans, MMC suggests that it is not possible to estimate annual total capital costs with any accuracy. Further resource definition and planning is required.

3.1.7 Operating Costs

The forecast operating costs as supplied by the Company are given in ***Table 3.2***. The original cost estimates were prepared based on a cost per gram of gold basis. MMC has adjusted this to a cost per ore tonne basis based on an average gold grade of 1.7 g/t. MMC considers these cash costs to be of the right order of magnitude, however it cannot make comments on the resource tax, admin fees and sales tax and VAT as these do not relate to technical issues. MMC also notes that as gold grades decrease in the future, mining costs will go up on a RMB/g basis since costs relate to the mining and processing of ore, not the contained gold itself.

Table 3.2 – Forecast Operating Cost

Cost Category	Cost (RMB/g)	Cost (RMB/Ore Tonne)
Ore Cost (including mining and transportation)	15	19
Processing Cost	22	28
Direct Reduction	3	4
Resource Tax	2	3
Administration Fees (resource compensation, wage, welfare, and other)	5	6
Sales Tax & VAT	10	13
Total	**57**	**73**

Note: this analysis is based on an average ore grade of 1.7 g/t and a gold processing recovery of 75% (P/yield)

Note: the costs have been converted from RMB/g to RMB/Ore Tonne by multiplying the original costs by 1.7g/t (the average gold grade on which the operating costs was originally determined) and then multiplying this by the average processing recovery of 75% (P/Yield)

Given the low resource confidence, and the limited planning which supports the companies mine plans, MMC suggests that it is not possible to estimate future annual operating capital costs with any accuracy. Further resource definition and planning is required.

3.1.8 Future Production Capacity

Future production has been previously outlined in ***Table 2.6*** and MMC notes that this schedule is based on the following assumptions:

- **Geology** – sufficient tonnes and grade
- **Ore Permeability** – target recovery of 75% can be achieved using the existing processing techniques
- **Heap Leach Pads** – sufficient additional pads are constructed to meet the targets
- **Mining** – the mining equipment fleet can meet the required production records

MMC also notes that the company is targeting higher practical yields (P/yield) in the range of theoretical yields (T/yield) of 80% to 85%.

3.1.9 Mass Balance – Verification

Assessment of the gold and it's recovery by gravity means should be undertaken due to the high level of losses.

Analysis data provided for the heap leaching is

Ore grade: 1.78 g/t, 1.65 g/t and 2.01 g/t Au

Tailings: 0.26 g/t, 0.44 g/t and 0.36 g/t Au assuming the samples are coded correctly and that the MMC interpretation is correct then Raw Ore I-1 had 1.78 g/t and tailings of 0.26 g/t – recovery 85.4% and pile I-2 had 1.65 g/t head grade with 0.44 g/t tails giving a recovery of 73.3% and pile I-3 had a head grade of 2.01 g/t and a tails of 0.36 g/t giving a recovery of 82.1%.

This leads to the question of whether the Au in I-2 was in a different size of form to the other two piles or was there non ideal stacking, mining or some other physical constraint.

Heap leaching is not a common practice where swelling clays are present as the permeability of the heap in conjunction with preferred flow paths for the leachate can adversely affect recoveries. It is not uncommon in this type of operation particularly in a moist climates (non desert), that recoveries on some piles can be less than 20% of contained gold with other similar piles yielding up to 85% contained gold. In most instances where sub micron gold is present the leaching is carried out within tanks in a beneficiation facility. This has a higher capital cost but allows for both better control and better recoveries of the contained gold. If there is a significant proportion of + 1 micron gold then the tank based leaching is usually preceded by gravity separation in order to reduce cycle time for the dissolution of the gold into the liquor and thus reduce tankage and capital costs.

3.2 PROCESSING OPPORTUNITIES

MMC identity the following opportunities to improve processing performance:

- Alternative processing techniques – combination of gravity and leaching
- Finer crushing to increase permeability
- If ore is greater than 1 micron gold then higher recoveries may be achieved by gravity separating, and if not, then leaching. A combined circuit with gravity falcon or nelson concentrator followed by leaching may be the best option depending on gold distribution and sizing within the orebody.

- From the data presented it appears that significant quantities of the gold contained within the ore are not recovered using the existing techniques (>25%), this is due to the type and distribution of the gold within the resource.

- Where there is sufficient resource as is indicted here then the value of the extra recovery as well as the surety of the extra recovery justifies the additional capital and operating expenditure to construct a beneficiation plant.

- With red swelling clays gold losses occur due to lack of access to the gold particles of the leaching solution. The clays can swell and seal off flow paths, preferential flow paths can develop as well as the heap "sealing" due to water reacting with the top surfaces or compaction. The heap needs to be laid down carefully in order to promote permeability and thus a maximum heap density of around 1.20 to 1.25 should be maintained. The heaps laid down appear to be approximately 3 m high on a 6000 m^2 base and at 22,000 tonnes should have an average density of 1.22 which is in the maximum heap density range.

4 SAFETY AND ENVIRONMENT

4.1 KEY SAFETY ISSUES

In general, health and safety standards in China and other developing countries tend to lag significantly behind developed countries. One key difference is that Chinese mining operations tend not to use personal protective equipment (such as safety boots, hearing protection, dust masks, eye protection and safety vests) as comprehensively as in the more advanced western countries.

MMC considers that the Company is above average by Chinese standards and it does have elements of a documented system in place to address fundamental safety management issues. These management plans and policies are associated with relevant regulatory requirements as well as reflecting the risk management operating context typically found in the domestic mining and processing industries.

Industrial deafness is a condition which often goes ignored in China but is widespread in mining industry. Industrial deafness occurs after long exposure to loud noise generate by industrial equipment.

The issues relating to industrial noise could be easily fixed by supplying workers with hearing protection and instructing them on the operation and safe use of these protective devices. Although they are not widely used in China, in almost all developing countries, they are compulsory for workers exposed to any potential source of noise that could lead to industrial deafness.

The company appears to have a positive and pragmatic approach to dealing with safety issues compared with other similar Chinese operations. The Company has acknowledged that currently, one of the biggest issues that it faces is a workforce culture that does not always take safety issues seriously. The Company understands this and is actively investing time and money into workforce training at all levels, company, management, operators, to help build a business culture focused on safety.

4.2 KEY ENVIRONMENTAL ISSUES

The main environmental concern with this type of operation (heap leaching) is the escape into the environment of cyanide. In this case the climate is such that escaping cyanide should break down before leaving the lease. In cold climates cyanide can accumulate in the environment.

Other environmental issues are briefly discussed as follows:

- **Land Clearing** – Dense forest over much of potential ore deposit may require environmental clearance to clear-fell the forest to allow opencut mining.

- **Waste Rock** – waste rock currently produced by the mine is dumped in a waste dump on the surface. Company management have indicated that in the future, the rock will be used for filling voids generated resulting from the mining operation;

- **Dust** – dust is primarily produced as a result of crushing, screening and ore transportation. The Company has in place dust suppression systems involving both dust suppressions sprays as well as mechanical dust collection devices to minimise the nuisance dust;

- **Tailings & Waste Water Management** – In MMC's opinion this is adequate with tailings contained in a tailings dam. Excess water from the tailings is recycled in the processing plant. Waste water is contained within the pad area and subsequently released to a stream.

- **Noise** – there are no major sources of noise; and

- **Waste Water** – Waste water is discharged into a local stream which runs through the mining lease. The stream is said to be monitored before it leaves the property and MMC consider it to be a low risk considering the local environment.

ANNEXURE A – QUALIFICATIONS AND EXPERIENCE

Technical Experts Involved in Preparation of the ITRR

Andrew Ryan – Minarco-MineConsult China Manager – Consulting – Bachelor of Engineering, Mining – University of New South Wales, Master of Applied Finance and Investment (Finsia) – Member of Australasian Institute of Mining and Metallurgy – Associate of Financial Services Institute of Australasia

Andrew has worked with MMC over the past six years and has been actively involved in all areas of mining consulting. Most recently, in 2005 Andrew moved to Beijing as MMC's Chinese Business Manager (Technical) responsible for the establishment and growth of MMC's China business. During this time Andrew has been involved with and/or project managed numerous mining related assignments in China. This work has included the project management of due diligence studies, valuation reports, opportunity assessments, conceptual development studies, and feasibility assessments for both domestic and international clients. The projects that these studies have focused on have covered a variety of minerals including coal, iron ore, copper, nickel, gold and molybdenum. Andrew has also had significant experience with due diligences for capital raisings and IPO related projects.

Bill Knox – Minarco-MineConsult China Executive Consultant – Bachelor of Science Geology – Curtin University Western Australia, – Member of Australasian Institute of Mining and Metallurgy

Bill joined Minarco-MineConsult now part of the Runge Group in 1993 as an associate and is based in the Beijing office. His experience includes:

- 10 years in Iron Ore operations
- 10 years in Coal operations and planning
- >10 years in Consulting, coal, metals and quarries.

Bill's areas of expertise include Mineral Resource and Ore Reserve assessment, geological modelling and mine design using Gemcom software, feasibility studies, operational management and grade/quality control. He has held site positions from Mine Geologist to Mine Superintendent and Head Office positions in business planning and development. Recent operations work has included alliance management and project management of two large opencut coal mines in NZ on behalf of Solid Energy and the mining contractor, which included developing a planning process and dispute resolution. Relevant technical experience in Coal projects has included Australia, New Zealand, Indonesia, Columbia, Bangladesh and Zimbabwe. Other work has concentrated on coal resource/reserve audits of procedures and reporting standards of major coal operations in Australia and Indonesia for presentations to corporate management and resource funding institutions. Metals experience has included 10 years in Iron Ore mining in the Pilbara, Western Australia and Mineral Resource modelling and reporting on poly-metallic and uranium projects in Australia and Mongolia. The range of commodities experience in operations and feasibilities studies includes iron ore, coal, poly-metallics, uranium, molybdenum, gold, oil shale, diamonds and quarries. Technical reviews include projects in China and Mongolia.

With reference to the Australasian Code for Reporting of Identified Mineral Resources and Reserves (JORC), he is considered a "competent person" to validate statements for Mineral Resources and Ore Reserves.

Peter Goodman – Process Engineer – Minarco-Mineconsult Associate – Bachelor of Applied Science – Graduate Diploma in Mineral Processing – Quarry Managers Certificate of Competency – Metallurgy Certificate – Member Australian Coal Preparation Society

Peter has managed, designed and constructed mineral processing plants in both Australia and South East Asia with over 30 years experience associated with the mining industry. During this period he has undertaken all levels of technical studies and audits of current and prospective operations in Queensland, NSW, China, New Zealand, India, South Africa and Indonesia. Peter has also been involved with numerous mineral processing plants that have been built or are currently under construction in China and elsewhere.

Rod Dale – Fellow of the Royal Melbourne Institute of Technology, 1960. Fellow of the Australasian Institute of Mining and Metallurgy

Experience includes exploration for iron ore; gold; base metals; uranium and industrial minerals in most states of Australia, in Indonesia, India, China, Brazil, Chile, Peru, Zimbabwe and Botswana. Rod has worked for several major and minor companies and has been an executive director of three ASX listed public companies. He has run his own "one man" geological consultancy since 1972 and has worked in and managed two small gold mines, both open-cut and underground, as part owner. Rod has also reviewed numerous independent technical reviews of both gold projects operating gold mines in China.

Matthew Hoare – Minarco-MineConsult Mining Analyst, Bachelor of Information and Technology, MBA

Matthew's experience has mainly been in the form of open-cut coal mines where he worked in a long term planning position at Kideco, a large Indonesian coal mine for over three years. He was also seconded to the Dawson Project in central Queensland where he assisted in short and medium term planning. Matthew has recently completed a Master of Business Administration majoring in finance. His undergraduate studies included Information Technology and Indonesian Language at the University of Southern Queensland. He is proficient in the use of Minescape.

Ron Siwinski – BSc. Minarco – Minarco-MineConsult Senior Mining Engineer, Engineering (Massachusetts), Water Resources (MIT)

Ron was born and educated in the USA and came to Australia in 1974. After a 6 year career as a civil engineer, he worked as Senior Mining Engineer, Operations at Cliffs Robe River Iron Ore in Western Australia in the 1970's. From 1980 to 2000 he was Mining Engineer, Project Management Engineer and General Manager, Engineering for Southern Pacific Petroleum NL and was heavily involved in their Queensland shale oil projects. Ron has considerable experience in mine planning, feasibility studies, economic analysis and mine development. His main area of expertise is project management. Ron has been a mining consultant since 2000.

Company's Relevant Experience

Minarco-MineConsult, part of the Runge Group, is a premier international consulting and engineering firm. We provide a full range of services from pure technical consulting through to strategic corporate advice. We undertake assignments on mining projects covering a range of commodities and countries, and we serve clients in most of the countries around the West Pacific Rim region.

Minarco-MineConsult maintains a full-time staff of qualified specialists in the fields of mining engineering, geology, process and metallurgical engineering, environmental and geotechnical engineering, and environmental economics.

Minarco-MineConsult typically completes over 200 assignments per year and has over 300 professionals (through Runge Group) available in disciplines including:

- Mining Engineering;

- Minerals Processing;
- Coal Handling and Preparation;
- Power Generation;
- Environmental Management;
- Geology;
- Contracts Management;
- Project Management;
- Finance;
- Commercial Negotiations.

The roots of Minarco-MineConsult were established in the Australian mining industry. Minarco-MineConsult is committed to compliance with the codes which regulate Australian corporations and consultants and has established an International business which has continued to give its clients and those that rely on its work the confidence that the relevant Australian codes invoke.

These codes include:

- The Australian Corporation Law;
- The Australian Institute of Company Directors Code of Conduct;
- The Securities Institute of Australia Code of Ethics;
- The Australasian Institute of Mining and Metallurgy Code of Ethics;
- The Australasian Code for Reporting of Exploration Results, Mined Resources and Ore Reserves (The JORC Code).

Minarco-MineConsult has conducted numerous mining technical due diligence programmes and reporting for IPO's and capital raisings over the past 6 years, with involvement in projects raising a total of over $US 10 billion of capital. This and other work is summarised in ***Table A1***.

Table A1 – Mining Related IPO and Capital Raising Due Diligence Experience

2008 Kenfair International (Holdings) Limited, Shengping Coal Mine: Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2007 Ko Yo Ecological Agrotech (Group) Limited, Sichuan Phosphate Project: Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2007 Prosperity International Holdings (H.K) Limited, Guilin Granite Project: Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by a listed Hong Kong Company.

2007 China Primary Resources Holdings Limited - Independent Technical Review for inclusion in a Stock Exchange Circular to support a mining asset purchase by China Primary Resources.

2007 Gloucester Coal Ltd – Independent Technical Review for Australian Stock Exchange Scheme of Arrangement.

2007 Whitehaven Coal Limited – Independent Technical Review for Australian Stock Exchange IPO.

2007 China Molybdenum Co. Ltd – Capital raising for large scale Molybdenum mine on the Hong Kong Stock Exchange. Preparation of CPR for IPO on the HKSE.

2006 Excel Coal Ltd – Independent Technical Review for Australian Stock Exchange Scheme of Arrangement.

2006 Celadon Mining Investment Group (UK) – Capital raising for coal mine purchase in China and planned subsequent listing on AIM.

2005 Yanzhou Coal Mining Company Limited – Independent Technical Review of coal projects to satisfy ongoing listing requirements of the HKSE and NYSE following IPO.

2004 Excel Coal Ltd – Independent Technical Review for Australian Stock Exchange IPO (current market capitalisation over $US1billion).

2004 Excel Coal Ltd – Independent Market Review for Australian Stock Exchange IPO.

2003 New Hope – Independent Market Review for Australian Stock Exchange IPO.

2003 Xstrata Plc – Competent Person's Report for London Stock Exchange Chapter 19 Report for Acquisition of MIM Assets including mines, rail and port review ($US2.5 billion).

2002 Xstrata Plc – Competent Person's Report for London Stock Exchange IPO ($US2.3 billion).

2002 Kaltim Prima Coal, Indonesia – Independent Technical Review for advising project financiers to acquisition ($US445 million).

2001 Enex Resources – Independent Technical Review for Australian Stock Exchange IPO.

2001 Macarthur Coal Limited – Independent Technical Report and Market Review for Australian Stock Exchange IPO.

ANNEXURE B – GLOSSARY OF TERMS

The key terms used in this report include:

- **$** refers to United States dollar currency
- **Assets** mean the Title of the Mineral Resources and the associated mining and processing plant and equipment
- **Au** is the chemical symbol for gold, a precious metal.
- **Chinese Code** means the Chinese Reporting Code. This is a national standard for the Classification of Resources/Reserves for Solid Fuels and Mineral Commodities (GB/T 17766-1999)
- **CNMRIL** stands for China Nonferrous Metals Resource Investment Limited
- **Company** means China Metal Resources Holdings Limited
- **contained metal** refers to the amount of pure metal equivalent estimated to be contained in the ore based on the ore grade.
- **current** means as at December 2008
- **Exploration Area** refers to the area within the Exploration Permit, which has either been explored, or which is being for considered for exploration in the future
- **Exploration Permit** is a permit dated 22 April 2008 at No. T53120080402005958 and covering an area of approximately 113.96 sq.km
- **flotation** is a selection method for to the recovery of minerals using reagents to create a froth that collects target minerals
- **CMRHL** stands for China Metal Resources Holdings Limited
- **grade** is the percentage of useful elements or their components, in ores
- **grind** means to crush, pulverize, or reduce to powder by friction, especially by rubbing between two hard surfaces
- **Guoyuan Gold Mine** refers to the three separate ore blocks, namely Guoyuan. Mulingba and Maiwoba which are located within the Mining Operation Permit
- **HKEX** stands for Hong Kong Stock Exchange

- **ITR** stands for Independent Technical Review
- **ITRR** stands for Independent Technical Review Report
- **JORC** stands for Joint Ore Reserves Committee
- **JORC Code** refers to the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 edition, which is used to determine resources and reserves, and is published by JORC of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia
- **km** stands for kilometre
- **kt** stands for thousand tonnes
- **lb** stands for pound, a unit of weight equal to 453.592 grams
- **m** stands for metres
- **MMC** refers to Minarco-MineConsult
- **mine production** is the total raw production from any particular mine
- **Mineral Resources** is a JORC term. These are estimates of mineral concentrations based on volume, density and grade that have reasonable prospects for eventual economic extraction.
- **Mining Operation Permit** means a mining permit at No. 5300009940016 and covering an area of approximately 0.43 sq.km
- **Mt** stands for million tonnes
- **Mtpa** means million tonnes per annum
- **NIB209** refers to Nuclear Industrial Brigade 209 Mangshi Gold Mine
- **ore** is a naturally occurring solid material from which a metal or valuable mineral can be extracted profitably
- **ore processing** is the process through which physical or chemical properties, such as density, surface reactivity, magnetism and colour, are utilized to separate the useful components of ores from useless stones, which are then concentrated or purified by means of flotation, magnetic selection, electric selection, physical selection, chemical selection, reselection, and combined methods
- **Ore Reserves** is a JORC term. These estimates are the economically mineable part of a Measured and/or Indicated mineral Resource.
- **ore t** stands for ore tonne
- **ounce** refers to troy ounce which is equal to 31.1034768 grams
- **primary mineral deposits** are mineral deposits formed directly from magmas, which are subsequently altered

- **raw ore** is ore that has been mined and crushed in an in-pit crusher, but has not been processed further

- **recovery rate** refers to the total amount of the valuable mineral which is successfully extracted and contained in the concentrate as a percentage of the total amount of metal contained in the ore.

- **RMB** stands for Chinese Renminbi Currency Unit; 10^3 RMB means 1,000 RMB

- **ROM** stands for run-of-mine, being material as mined before beneficiation

- **t** stands for tonne

- **Target Company** refers to China Nonferrous Metals Resource Investment Limited

- **Target Exploration Area** is an area which is covered by the Exploration Permit and encloses the Target Mine at its northwest part

- **Target Mine** refers to The Maiwoba Mine Section and the Guoyuan Mine Section which are covered by the Mining Operation Permit

- **tonne** refers to metric tonne

- **tpa** stands for tonnes per annum

- **tpd** stands for tonnes per day

- **VALMIN Code** refers to the code and guidelines for technical assessment and or valuation of mineral and petroleum assets and mineral and petroleum securities for independent expert reports

- **YXML** stands for Yunnan Xibu Mining Ltd

- **¥** is the symbol for the Chinese Renminbi Currency Unit

Note: Where the terms Competent Person, Inferred Resources and Measured and Indicated Resources are used in this report, they have the same meaning as in the JORC Code.

ANNEXURE C – CHINESE RESOURCE REPORTING STANDARDS

Chinese Resource Reporting Standards

In 1999, with a view to creating a standard that was comparable with international resource reporting standards, The Chinese National Land and Resource Department introduced its own national standard for the Classification of Resources/Reserves for Solid Fuels and Mineral Commodities (GB/T 17766-1999).

This code was to replace the previous code (China GB 13908-1992 – General rules for Geological Exploration of Solid Ore Resources) and was based upon the United Nations international code (UN Economic and Society Committee, UN document ENERGY/WP.1/R.70). Some elements of the American resource reporting standards were included and modifications made to suit Chinese conditions. All new resource estimates are reported under this new code and old estimates either re-estimated or converted to the new system.

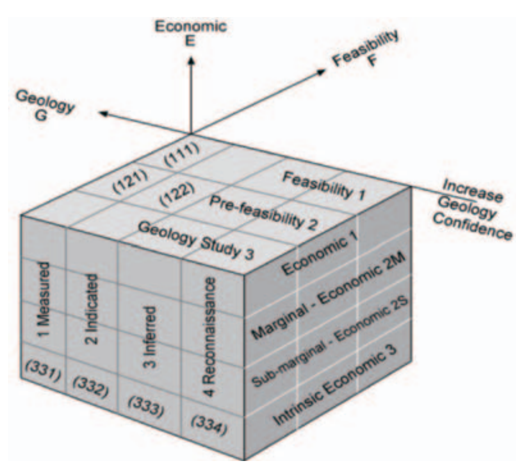
The previous Chinese standard (GB 13908-1992) divided resources into four categories (A, B, C and D) which were loosely comparable to the JORC – (December 2004) classifications of Measured Resource (A-B), Indicated Resource (B-C) and Inferred Resource (D). The old standard was more prescriptive than JORC in that it specified minimum borehole spacings (see **Table C1**) for each category, along with implied levels of geological understanding.

Table C1 – Borehole Spacing Comparison (Chinese, UN and JORC Codes)

(Chinese Reserve Code)	Classification (Chinese Reserve Class)	UN Code	JORC (Dec 2004)	Minimum Borehole/ Drill Line Spacing
A	111 – 121	331	Measured	<100 m
B	121 – 122	331	Measured	<=100 m x 100 m
C	122 – 2M22	332	Indicated	<=200 m x 100 m
D	122	333	Inferred	>200 m

The old code was essentially a geological classification, taking little account of the deposits economics or the level of mining studies that had been carried out on it. The new code (see ***Figure C1***) attempts to address this by using a three component system (EFG) that considers the deposit economics (E), the level of mining feasibility studies that have been carried out (F) and the level of geological confidence (G) using a numerical ranking.

Figure C1 – New Chinese Resource/Reserve Classification Matrix (1999)



This system produces a three digit code for a deposit that reflects these three variables. For example a deposit classified as a 121 is economically viable (1), has had pre-feasibility studies carried out (2) and is well understood geologically (1). Various suffixes are used to distinguish Basic Reserves – essentially JORC Resources – (121b) from Extractable Reserves (121) and to identify the assumed economic viability (S or M). Certain categories are not allowed, for example pre-feasibility or feasibility level studies cannot be conducted on Inferred Resources, and so 123 and 113 are invalid classifications. Also Extractable Reserves are not estimated for marginally economic (or lesser) deposits so the (b) suffix is considered redundant. The term Intrinsically Economic indicates that while the deposit may be economic, insufficient studies have been carried out to clearly determine its status.

A tabulation of this concept is shown in ***Table C2.***

Table C2 – New Chinese Resource/Reserve Categories (1999)

Economic Viability	Geological Confidence			
	Identified Mineral Resource			Undiscovered Resource
	Measured (1)	Indicated (2)	Inferred (3)	Reconnaissance (4)
Economic (1)	Basic Reserve Resource – 111b			
	Proved Extractable Reserve – 111			
	Basic Reserve Resource 121b	Basic Reserve Resource -122b		
	Probable Extractable Reserve – 121	Probable Extractable Reserve -122		
Marginally Economic (2M)	Resource 2M11			
	Resource 2M21	Resource 2M22		
Sub-marginally Economic (2S)	Resource 2S11			
	Resource 2S21	Resource 2S22		
Intrinsically Economic (3)	Resource 331	Resource 332	Resource 333	Resource 334

Note: First digit reflects Economic viability; 1= Economic; 2M=Marginally Economic; 2S= Sub-marginally Economic; 3=Intrinsically Economic; 4=Economic interest undefined.

Second digit reflects Feasibility assessment stage, 1=Feasibility; 2=Pre-feasibility; 3=Geological study.

Third digit reflects Geological assurance, 1=Measured, 2=Indicated, 3=Inferred, 4=Reconnaissance.

b=Basic Reserve (prior to recovery factors, mining losses and dilution) – JORC Resource.

Unlike the old code, the new code does not specify required borehole spacings for each category. In the case of copper Cobalt and Gold (and other metals), there is an accompanying Chinese Professional Standard (DZ/T 0214-2002) that lays out rules for determining the level of geological confidence.

International Standards and the JORC Code for Resources

Two main styles of resource reporting codes exist internationally. These are the American style (USA and much of South America) and the JORC style (Australia, South Africa, Canada, and UK). This is further complicated by the listing and reporting requirements of different stock exchanges. It is generally true that a resource estimation that complies with the JORC code (or one of its sister codes) will meet the standards of most international investors.

The new Chinese code is a blend of the old Chinese Code and the codes in current use today, including JORC and the current United Nations (UN) standard, with some additional local components added.

JORC is a non-prescriptive code, in that it does not lay out specific limits for resource classification in terms of such things as borehole spacing. Instead it emphasises the principles of transparency, materiality and the role of the Competent Person. Whilst some guidelines do exist (e.g. the Australian Guidelines for the Estimation of Coal Resources and Reserves) they are not mandatory and classification is left in the hands of the Competent Person. When combined with its Professional Standards (which are effectively mandatory), the Chinese code is much more prescriptive but does not include the role of the Competent Person.

An examination of the details of the Chinese code suggests that in terms of broad categorisation, the levels of geological confidence ascribed to Measured and Indicated resources are quite similar in both the codes. The ranges of borehole spacings, thickness cut-offs and quality limitations that are enforced by the Chinese system would generally result in the same resource classification under the JORC Code.

The JORC Code uses the following definitions for Mineral Resources and Ore Reserves:

Measured Mineral Resource is that part of Mineral 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. The locations are spaced closely enough to confirm geological and grade continuity.

Indicated Mineral Resource is that part of Mineral 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 detailed and reliable 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 is that part of Mineral Resource for which tonnage, densities, shape, physical characteristics, 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.

A "**Proved Ore Reserve**" is the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified

A Proved Ore Reserve represents the highest confidence category of Ore Reserve estimates. This requires detailed exploration and quality data "points of observation" to provide high geological confidence.

A "**Probable Ore Reserve**" is the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistic ally assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

A Probable Ore Reserve has a lower level of confidence than a Proved Ore Reserve but has adequate reliability as the basis of mining studies.

1. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company and 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 in which they deemed or taken to have under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by Directors, to be notified to the Company and the Stock Exchange:

Long position in the Shares and underlying Shares

Name of Director	Capacity	Number of issued Shares held	Approximate percentage of issued share capital
Mr. Ng Kwok Chu, Winfield	Beneficial owner	945,000	0.04%
Mr. Leung *(Note)*	Interest of a controlled corporation	383,288,000	15.76%

Note:

Mr. Leung, an executive Director, is the beneficial owner of Speedy Well, a company incorporated in the British Virgin Islands and a substantial Shareholder which was interested in 383,288,000 Shares as at the Latest Practicable Date.

2. SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WITH INTERESTS IN THE COMPANY WHICH ARE DISCLOSEABLE UNDER SECTION 336 OF PART XV OF THE SFO

(a) Substantial Shareholders of the Company

As at the Latest Practicable Date, so far as was known to the Directors, the persons, other than a Director whose interest is disclosed under the paragraph headed "Directors' and chief executive's interests and short positions in Shares, underlying Shares and debentures" in this Appendix, who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Long position in the Shares and underlying Shares

Name of Shareholder	Capacity	Number of Shares and underlying Shares held	Approximate percentage of issued share capital
Speedy Well *(Note 1)*	Beneficial owner	383,288,000	15.76%
Fortis Investment Management SA	Investment manager	178,830,000	7.64%
Mr. Li Ming Han	Beneficial owner	164,090,907	6.74%

Note:

Speedy Well is a company incorporated in the British Virgin Islands and beneficially owned by Mr. Leung, an executive Director, whose interests in the Shares are disclosed in the paragraph headed "Directors' and chief executives' interests and short positions in Shares, underlying Shares and debentures".

(b) 10% holder of a member of the Enlarged Group

As at the Latest Practicable Date, so far as was known to or can be ascertained after reasonable enquiry by the Directors, the following entity was, either directly or indirectly, interested in shares representing 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of a member of the Enlarged Group.

Name of shareholder of the member of the Enlarged Group	Name of member of the Enlarged Group	Approximate percentage of shareholding
PRC Partner	CJV	20%

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, there is no other person who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, had a direct or indirect interests amounting to 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of a member of the Enlarged Group, or are required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

3. LITIGATION

As at the Latest Practicable Date, none of the members of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against a member of the Enlarged Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the directors of any member of the Enlarged Group had a service contract with any member of the Enlarged Group which was not determinable by such member of the Enlarged Group within one year without payment of compensation other than statutory compensation.

5. DIRECTORS' INTEREST IN ASSETS

Save for the Acquisition as described in sub-paragraph (a) and under the paragraph headed "Material contracts" below in which Mr. Leung and Ms. Wu Wei Hua, each being, an executive Director, had an indirect interest and the non-legally binding memorandum of understanding as described in sub-paragraph (e) under the paragraph headed "Material Contracts" below in which Mr. Leung had an indirect interest, none of the Directors has since 31 December 2007, being the date to which the latest published audited accounts of the Company were made up, any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

6. DIRECTORS' INTEREST IN CONTRACTS

Other than the Acquisition as described in sub-paragraph (a) and under the paragraph headed "Material contracts" below in which Mr. Leung and Ms. Wu Wei Hua, each being, an executive Director, had an indirect interest and the non-legally binding memorandum of understanding as describe in sub-paragraph (e) under the paragraph headed "Material Contracts" below in which Mr. Leung had an indirect interest, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date, and which was significant in relation to the business of the Enlarged Group as a whole.

7. COMPETING BUSINESS

None of the Directors and management Shareholders has any business or interest which competes or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

8. PROFESSIONAL QUALIFICATIONS

(a) The company secretary of the Company is Ms. Man Tsz Sai Lavender ("**Ms. Man**"). Ms. Man is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

(b) The qualified accountant of the Company is Ms. So Wai Yee Betty ("**Ms. So**"). Ms. So is an associate member of Hong Kong Institute of Certified Public Accountants.

(c) The compliance officer of the Company is Mr. Leung.

9. AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in accordance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the audit committee include the re-appointment of the external auditors and review of their audit fee; discussing with the external auditors before the audit commences, the nature and scope of the audit; review of quarterly results with the auditors and management, review of accounting policies adopted by the Group and to supervise the financial reporting process and internal control systems of the Group. The audit committee comprises three members, namely Dr. Leung Wai Cheung (chairman of the audit committee), Mr. Chan Sing Fai and Mr. Liu Jia Qing, who are all independent non-executive Directors, further details of whom are set out below:

Dr. Leung Wai Cheung, aged 43, is the chief financial officer of FlexSystem Holdings Limited, a company listed on GEM, and an independent non-executive director of Wing Hing International (Holdings) Limited, Sino Prosper Holdings Limited ("**Sino Prosper**") and Mobicon Group Limited, which are companies listed on the Main Board of the Stock Exchange. Dr. Leung is a qualified accountant and chartered secretary with over 21 years of experience in accounting, auditing and financial management. He graduated from Curtin University with a Bachelor of Commerce Degree majoring in accounting and subsequently obtained a Postgraduate Diploma in Corporate Administration and a Master Degree in Professional Accounting from the Hong Kong Polytechnic University, a Doctor of Philosophy Degree in Management from the Empresarial University of Costa Rica and a Doctor of Education Degree from Bulacan State University. He is an associate member of each of the Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Accountants in England & Wales, CPA Australia, The Institute of Chartered Secretaries and Administrators, The Hong Kong Institute of Chartered Secretaries and the Taxation Institute of Hong Kong and a fellow member of the Association of Chartered Certified Accountants. Dr. Leung is also a visiting lecturer of the Open University of Hong Kong (LiPACE) and the Hong Kong University (SPACE).

Mr. Chan Sing Fai, aged 51, has about 25 years' experience in property development and management. He obtained a Master Degree in Business Administration from The Chinese University of Hong Kong in 1981. Mr. Chan is an independent non-executive director of Sino Prosper, a company listed on the Main Board of the Stock Exchange.

Mr. Liu Jia Qing, aged 38, graduated from China Central Radio and TV University in the PRC and obtained a bachelor's degree in Business Corporate Management. Mr. Liu has more than 15 years of experience in mining, smelting and trading. He has been working in the industry of mining resources development since 1991.

10. 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 the two years preceding the date of this circular and are, or may be, material:

(a) the Agreement;

(b) the conditional sale and purchase agreement dated 26 November 2007 and entered into between Sun Rise Int'l Trading Limited ("**Sun Rise**") and E-silkroad.net Corporation ("**E-silkroad.net**"), a wholly-owned subsidiary of the Company in relation to the acquisition by E-silkroad.net of 49% equity interests in Leland Solutions Limited from Sun Rise at a consideration of HK$49,000 and the related confirmation signed by E-silkroad.net extending the long-stop date for satisfaction of the condition precedent to 20 February 2008;

(c) the conditional placing agreement dated 23 October 2007 and made between Speedy Well as vendor, Morgan Stanley & Co. International plc. as placing agent and the Company pursuant to which the placing agent agreed, as agent of the vendor, to procure purchasers to purchase or, failing of which, itself to purchase a total of 112,695,840 placing shares beneficially owned by the vendor at HK$0.29 per placing share;

(d) the subscription agreement dated 23 October 2007 and made between Speedy Well and the Company for the subscription of 112,695,840 new Shares at HK$0.29 per subscription share;

(e) the non-legally binding memorandum of understanding dated 3 October 2007 entered into between the Company as purchaser and Mr. Leung as vendor setting out the preliminary understanding in relation to the possible acquisition by the Company from Mr. Leung of not less than 51% of the issued share capital of the Target at a consideration which will be determined by further negotiation between the Company and Mr. Leung,

(f) the conditional placing agreement dated 20 September 2007 and made between Speedy Well as vendor, BNP Paribas Capital (Asia Pacific) Limited as placing agent and the Company pursuant to which the placing agent agreed to place, on a best effort basis, up to 255,000,000 placing shares beneficially owned by the vendor, on behalf of the vendor, to independent purchasers at HK$0.27 per placing share;

(g) the subscription agreement dated 20 September 2007 and made between Speedy Well and the Company pursuant to which Speedy Well conditionally agreed to subscribe for the subscription shares (the number of which was equal to the number of placing shares sold by Speedy Well pursuant to the placing as described in paragraph (f) above at HK$0.27 per subscription Share;

(h) the subscription agreement dated 3 July 2007 entered into between the Company and Mr. Li Ming Han in relation to the issue and subscription of 9,000,000 unlisted warrants at an issue price of HK$0.02 per warrant, each entitling the holder thereof to subscribe in cash for one then ordinary share of HK$0.01 in the capital of the Company at the then initial subscription price of HK$2.25, subject to adjustment, at any time for a period of three years commencing from the date of issue of the warrants;

(i) the subscription agreement dated 3 July 2007 entered into between the Company and Mr. Pan Chik in relation to the issue and subscription of 8,900,000 unlisted warrants at an issue price of HK$0.02 per warrant, each entitling the holder thereof to subscribe in cash for one then ordinary share of HK$0.01 in the capital of the Company at the then initial subscription price of HK$2.25, subject to adjustment, at any time for a period of three years commencing from the date of issue of the warrants;

(j) the memorandum of understanding dated 19 April 2007 and entered into between E-silkroad.net Online Commerce Limited, a wholly-owned subsidiary of the Company and北京合眾盈彩投資顧問有限公司 (unofficial English translation being Beijing Hezhong Yingcai Investment Consultancy Co., Ltd.) setting out the basic understanding between the parties thereto in connection with the proposed acquisition by E-silkroad.net Online Commerce Limited of a controlling stake in 北京合眾盈彩投資顧問有限公司 (unofficial English translation being Beijing Hezhong Yingcai Investment Consultancy Co., Ltd.);

(k) the placing and subscription agreement dated 13 April 2007 and made between Speedy Well as vendor, Payton Place Limited as purchaser, Ms. Lo Yuk Yee, the ultimate beneficial owner of the purchaser, and the Company pursuant to which (i) Speedy Well agreed to sell 13,566,960 placing shares of HK$0.01 each in the capital of the Company held by it to the purchaser who is an independent third party at HK$0.49 per placing Share; and (ii) Speedy Well conditionally agreed to subscribe for a total of 13,566,960 new shares (the number of which is equal to the number of placing shares sold by Speedy Well) of HK$0.01 each in the capital of the Company at HK$0.49 per subscription share; and

(l) the technology consultancy services framework agreement dated 1 April 2008 entered into between the Company and Guangzhou Institute of Geochemistry Chinese Academy of Sciences in relation to among others, the provision of relevant technical support and consultancy services on mine exploration, selection and exploitation.

11. EXPERTS AND CONSENT

(a) The following are the qualifications of the experts who have given their opinions and advice which are included in this circular:

Name	**Qualification**
Access Capital Limited	a corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

Hantec Capital Limited ("**Hantec**")	a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Grant Thornton	Certified Public Accountants
LCH (Asia-Pacific) Surveyors Limited ("**LCH**")	Chartered surveyors
Minarco-MineConsult ("**Minarco**")	Independent technical advisers

(b) None of the Independent Financial Adviser, Hantec, Grant Thornton, LCH and Minarco 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.

(c) Each of the Independent Financial Adviser, Hantec, Grant Thornton, LCH and Minarco 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.

(d) None of the Independent Financial Adviser, Hantec, Grant Thornton, LCH and Minarco had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 December 2007, the date to which the latest published audited financial statements of the Group were made up.

12. MISCELLANEOUS

(a) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(b) The head office and principal place of business of the Company in Hong Kong is at Unit 1006, 10th Floor, Tower One Lippo Centre, No. 89 Queensway, Hong Kong.

(c) The Company's branch share registrar in Hong Kong is Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) 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 are available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong, Unit 1006, 10th Floor, Tower One Lippo Centre, No. 89 Queensway, Hong Kong from the date of this circular up to and including 27 May 2008:

(a) the memorandum and articles of association of the Company;

(b) the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;

(c) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" in this circular;

(d) the consolidated audited financial statements of the Group for the two years ended 31 December 2007;

(e) the accountants' report on Leland prepared by Grant Thornton, the text of which is set out in Appendix IB to this circular;

(f) the unaudited pro forma financial information of the Group and Leland prepared by Grant Thornton, the text of which is set out in Appendix IC to this circular;

(g) the accountants' report prepared by Grant Thornton on the Target Group, the text of which is set out in Appendix IIA to this circular;

(h) the accountants' report prepared by Grant Thornton on the Subsidiary and the CJV, the text of which is set out in Appendix IIB to this circular;

(i) the accountants' report prepared by Grant Thornton on the CJV, the text of which is set out in Appendix IIC to this circular;

(j) the accountants' report prepared by Grant Thornton in respect of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(k) the valuation report on the project of the CJV prepared by LCH, the text of which is set out in Appendix IV to this circular;

(l) the report on forecasts underlying the valuation on the project of the CJV prepared by Grant Thornton, the text of which is set out in Appendix V to this circular;

(m) the property valuation report prepared by LCH, the text of which is set out in Appendix VI to this circular;

(n) the technical report prepared by Minarco-MineConsult, the text of which is set out in Appendix VII to this circular;

(o) the letters of consent referred to under the paragraph headed "Experts and consent" in this Appendix;

(p) a copy of each of the material contracts referred to in the paragraph headed "Material contracts" in this Appendix;

(q) the circular of the Company dated 2 November 2007 in relation to a discloseable transaction;

(r) the circular of the Company dated 29 January 2008 in relation to a major and connected transaction; and

(s) the Supply Agreement.

CHINA METAL RESOURCES HOLDINGS LIMITED
中國金屬資源控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8071)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China Metal Resources Holdings Limited ("**Company**") will be held at Unit 1006, 10th Floor, Tower One Lippo Centre, No. 89 Queensway, Hong Kong on 30 May 2008 at 11:00 a.m. for the purpose of considering and, if thought fit, with or without amendments, passing the following ordinary resolutions:

ORDINARY RESOLUTIONS

(1) "**THAT**:

(a) the form and substance of the agreement ("**Agreement"**) dated 4 January 2008 and entered into between Mr. Leung Ngai Man ("**Vendor**") as vendor and Greatest High Holdings Limited, a wholly-owned subsidiary of the Company, as purchaser, in relation to the acquisition ("**Acquisition**") of one ordinary share of nominal value US$1.00 in the issued share capital of China Nonferrous Metals Resources Investment Limited ("**Target**") and all obligations, liabilities and debts owing by the Target to the Vendor on or at any time prior to the completion of the Acquisition, at a consideration ("**Consideration**") of HK$1,800 million (a copy of which has been produced to the meeting and marked "A" and initialed by the chairman of the meeting for identification purpose), as mentioned in the circular ("**Circular**") of the Company dated 13 May 2008 (a copy of which 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 are hereby approved;

(b) subject to completion of the Acquisition, the directors ("**Directors**") of the Company be and are hereby generally and specifically authorised to allot and issue such number of new shares of HK$0.0005 each in the capital of the Company as Consideration Shares (as defined in the Circular) in accordance with the terms and conditions of the Agreement;

(c) subject to completion of the Acquisition, the creation and issue of the Convertible Bonds (as defined in the Circular), on and subject to the terms of the Agreement, be and is hereby approved and the allotment and issue of the shares (as such term is described in the draft deed poll constituting the Convertible Bonds attached to the Agreement) upon the exercise of the conversion rights attaching to the Convertible Bonds be and are hereby approved; and

(d) the 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 as the Directors in their discretion may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Agreement, the allotment and issue of the Consideration Shares, the creation of the Convertible Bonds and the allotment and issue of the shares of the Company (upon exercise of the conversion rights attaching to the Convertible Bonds) or any of the transactions contemplated under the Agreement (including but not limited to the execution of the instrument which will constitute the Convertible Bonds) and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents, which are not fundamentally different from those as provided under the Agreement) as are, in the opinion of the Directors, in the interest of the Company and its shareholders as a whole."

(2) "**THAT**:

(a) conditional upon the passing of resolution numbered 1 as set out in the notice convening this meeting and subject to paragraph (b) below, the exercise by the directors ("**Directors**") of the Company of all the powers of the Company to allot, issue and deal with the unissued shares (each, a "**Share**") in the capital of the Company and to make or grant offers, agreements and options, including other securities to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;

(b) the authority of the Directors pursuant to the approval in paragraph (a) above shall be limited as follows:

(i) the aggregate number of Shares that can be allotted and issued or agreed conditionally or unconditionally to be allotted and issued by the Directors pursuant to the approval in paragraph (a) above shall be limited to a maximum of 6,133,000,000 Shares;

(ii) the issue price of all such Shares shall not be less than HK$0.10 per Share (in any event, not more than 20% discount (if any) to the (i) average closing price of the Shares for the five consecutive trading days before the date of the relevant placing agreement); or (ii) the closing price of the shares for the last trading day before the date of the relevant placing, whichever is higher; and

(iii) such authority (to the extent not yet exercised) shall expire on the earlier of (aa) 31 December 2008; or (bb) the completion of the Acquisition (as defined in resolution numbered 1 as set out in the notice convening this meeting)."

(3) "**THAT**:

(a) the form and substance of the supply agreement ("**Supply Agreement**") dated 19 December 2007 and entered into between 雲南西部礦業有限公司 (Yunnan Xibu Mining Company Limited*) ("**CJV**") and a company controlled by 雲南省核工業209地質大隊 (Geological Brigade 209 of the Nuclear Industry of Yunnan Province*) in relation to the supply of all the ore extracted from a gold mining site located at Luoxi City, Yunnan Province, the PRC which is subject to a mining operation permit to the CJV (a copy of which has been produced to the meeting marked "C" and initialed by the chairman of the meeting for identification purpose), as mentioned in the circular ("**Circular**") of the Company dated 13 May 2008 (a copy of which has been produced to the meeting marked "D" and signed by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereby be and are hereby approved, confirmed and ratified;

(b) the relevant expected cap amounts of the transactions contemplated under the Supply Agreement for the period commencing from the date of the Supply Agreement and ending on 31 December 2008, and the two years ending 31 December 2009 and 31 December 2010 as set out in the Circular be and are hereby approved; and

(c) the 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 as the Directors may in their discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Supply Agreement or any of the transactions contemplated thereunder and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents, which are not fundamentally different from those as provided under the Supply Agreement) 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
China Metal Resources Holdings Limited
Ng Kwok Chu, Winfield
Executive Director

Hong Kong, 13 May 2008

As at the date hereof, the board comprised the following Directors:

Executive Directors:
Leung Ngai Man *(Chairman)*
Ng Kwok Chu, Winfield
Wu Wei Hua

Independent non-executive Directors:
Leung Wai Cheung
Chan Sing Fai
Liu Jia Qing

Head Office and Principal Place of Business in Hong Kong:
Unit 1006, 10th Floor
Tower One Lippo Centre
No. 89 Queensway
Hong Kong

Notes:

(1) Any member entitled to attend and vote at the above meeting is entitled to appoint one or, if he/she is the holder of two or more shares, more than one proxy to attend and vote on his/her behalf in accordance with the articles of association of the Company. A proxy need not to be a member of the Company.

(2) To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority must be deposited at the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the above meeting or any adjournment thereof.

(3) Delivery of an instrument appointing a proxy shall not preclude a member 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. 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.