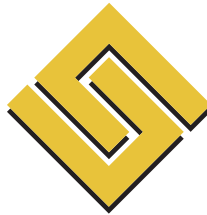

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

If you have sold or transferred all your shares in **China Metal Resources Holdings Limited** (“Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Hong Kong Exchange and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of 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)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION AND RE-ELECTION OF DIRECTOR AND NOTICE OF THE EXTRAORDINARY GENERAL MEETING

Financial Adviser



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

Independent financial adviser to the Independent Board Committee
and the Independent Shareholders

Nuada Limited

Corporate Finance Advisory

A letter from the Board is set out on pages 5 to 46 of this circular. A letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on page 47 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 48 to 59 of this circular.

A notice convening the extraordinary general meeting of the Company (“EGM”) to be held at Unit 1006, 10th Floor, Tower One Lippo Centre, 89 Queensway, Hong Kong on 16 August 2010 at 11:00 a.m. is set out on pages EGM-1 to EGM-3 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 at www.hkgem.com for at least 7 days from the date of its publication and on the Company’s website at www.cmr8071.com.

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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.

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DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Share pursuant to the terms and conditions of the Acquisition Agreement
“Acquisition Agreement”	the agreement dated 13 May 2010 and entered into between the Purchaser and the Vendor in respect of the Acquisition
“Announcement”	the announcement of the Company dated 24 June 2010 in relation to, among others, the Acquisition
“associates”	has the meaning ascribed thereto under the GEM Listing Rules
“Board”	the board of Directors
“Bondholder(s)”	the holder(s) of the Convertible Bonds
“business day”	any day (other than a Saturday or Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“BVI”	the British Virgin Islands
“Company”	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 Acquisition Agreement
“Completion Date”	the date of Completion, being the date falling three business days after all the conditions of the Acquisition Agreement have been fulfilled or waived or such later date as may be agreed between the Vendor and the Purchaser
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Consideration”	the consideration for the Acquisition, being HK\$2,112.5 million
“Consideration Shares”	up to 200,000,000 new Shares to be allotted and issued by the Company at the Issue Price as partial Consideration
“Conversion Price”	the issue price of HK\$0.24 per Conversion Share as agreed between the Vendor and the Purchaser

DEFINITIONS

“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 HK\$797.5 million to be issued by the Company in favour of the Vendor as partial Consideration
“Deposit”	the initial deposit of HK\$67 million paid by the Purchaser to the Vendor on the date of the Acquisition Agreement, as partial Consideration
“Directors”	directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder and the re-election of Director
“Enlarged Group”	the Group as enlarged by the Acquisition (to be completed subject to the relevant conditions precedent thereto being satisfied) as disclosed in the Announcement
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“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 or “Nuada Limited”	Nuada Limited, a licensed corporation to carry out type 6 regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
“Independent Shareholders”	Shareholders other than the Vendor and his associates
“Independent Third Party”	a person who is not a connected person of the Company and is independent of and not connected with the Company and its connected persons

DEFINITIONS

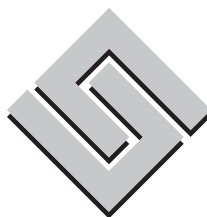
“Investment Agreement”	the agreement dated 7 March 2010 and entered into between the Original Target JV Shareholders and the Target HK in respect of the proposed investment in the Target JV by the Target HK
“Issue Price”	the issue price of HK\$0.24 per Consideration Share as agreed between the Vendor and the Purchaser
“Latest Practicable Date”	26 July 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Last Trading Day”	13 May 2010, being the last trading day for the Shares before the date of the Announcement
“Mr. Leung” or “Vendor”	Mr. Leung Ngai Man, an executive Director
“Original Target JV Shareholders”	the original shareholders of the Target JV before the subscription under the Subscription Agreement and the Acquisition
“parties acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“PRC” or “China”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Promissory Note”	promissory note in the principal amount of HK\$1,200 million to be executed by the Company in favour of the Vendor for the purpose of settling part of the Consideration
“Purchaser”	Easywin International Holdings Limited (順風國際控股有限公司), a company incorporated in the BVI and a wholly-owned subsidiary of the Company and the purchaser named under the Acquisition Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Share”	one ordinary share having a nominal value of US\$1 in the issued share capital of the Target BVI, representing the entire issued share capital of the Target BVI
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	ordinary share(s) of HK\$0.001 each in the share capital of the Company

DEFINITIONS

“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the agreement dated 13 April 2010 and entered into between the Original Target JV Shareholders and the Target HK in respect of the acquisition of 51% interest in the Target JV by the Target HK, which was amended by a supplemental agreement dated 13 April 2010
“Takeovers Code”	Code on Takeovers and Mergers
“Target BVI”	Pearl Sharp Limited (寶光有限公司), 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 BVI, the Target HK and the Target JV
“Target HK”	Greatest Profit Investment Limited (信陞投資有限公司), a company incorporated in Hong Kong and as at the Latest Practicable Date, wholly and beneficially owned by the Target BVI
“Target JV”	深圳環彩普達科技有限公司(Shenzhen Huancai Puda Technology Company Limited, being its unofficial English name), an equity joint venture established under the PRC laws on 9 November 2006, and as at the Latest Practicable Date, owned as to 51% by the Target HK and 49% by two Independent Third Parties
“US”	the United States of America
“US\$”	United States dollar, being the lawful currency of the United States of America
“%”	per cent.

For the purpose of this circular, unless otherwise specified, conversions of RMB into Hong Kong dollars are based on the approximate exchange rate of RMB0.88 to HK\$1.

LETTER FROM THE BOARD



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:

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

Independent non-executive Directors:

Dr. Leung Wai Cheung
Mr. Cai Wei Lun
Mr. Wang Jun Sui

Registered office:

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

Principal place of business in Hong Kong:

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

30 July 2010

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

Dear Sir/Madam,

**VERY SUBSTANTIAL ACQUISITION
AND
CONNECTED TRANSACTION
AND
RE-ELECTION OF DIRECTOR**

INTRODUCTION

On 13 May 2010, the Purchaser (being a wholly-owned subsidiary of the Company) and the Vendor entered into the Acquisition Agreement pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Share, at a total consideration of HK\$2,112.5 million.

LETTER FROM THE BOARD

Pursuant to the terms of the Acquisition Agreement, the Consideration shall be satisfied by (i) on the date of the Acquisition Agreement, an aggregate amount of HK\$67 million was paid by the Purchaser to the Vendor as the Deposit and (if the Acquisition is completed) part of the Consideration; (ii) HK\$48 million shall be satisfied by the Purchaser procuring the Company to allot and issue the Consideration Shares, credited as fully paid at the Issue Price, on Completion to the Vendor; (iii) HK\$1,200 million shall be satisfied by the Purchaser procuring the Company to issue the Promissory Note to the Vendor on Completion; and (iv) the remaining balance of the Consideration (being HK\$797.5 million) shall be satisfied by the Purchaser procuring the Company to issue the Convertible Bonds to the Vendor on Completion.

The Vendor is a connected person by virtue of him being a Director and a substantial Shareholder holding approximately 16.27% 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 Acquisition 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 will abstain from voting on the resolution to approve the Acquisition and any vote exercised by the Independent Shareholders at the EGM shall be taken by poll.

The purpose of this circular is to provide you with, among other matters, (i) further details of the Acquisition; (ii) the financial information of the Group; (iii) the financial information of the Target Group; (iv) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Acquisition; (v) the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition; (vi) the valuation report on the Target JV; (vii) details of the Director proposed to be re-elected; and (viii) a notice of the EGM.

THE ACQUISITION AGREEMENT

Date: 13 May 2010 (after trading hours)

Parties:

Purchaser: Easywin International Holdings Limited (順風國際控股有限公司), 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 is the legal and beneficial owner of the entire issued share capital of the Target BVI. The Target BVI has an authorised capital of US\$50,000 divided into 50,000 ordinary shares of US\$1 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, holding approximately 16.27% of the issued share capital of the Company as at the Latest Practicable Date.

LETTER FROM THE BOARD

Assets to be acquired

Pursuant to the Acquisition 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 BVI).

Consideration

Pursuant to the terms of the Acquisition Agreement, the Consideration of HK\$2,112.5 million shall be settled in the following manner:

- (i) on the date of the Acquisition Agreement, an aggregate amount of HK\$67 million was paid by the Purchaser to the Vendor as the Deposit and (if the Acquisition is completed) part of the Consideration;
- (ii) HK\$48 million shall be satisfied by the Purchaser procuring the Company to allot and issue the Consideration Shares, credited as fully paid at the Issue Price, on Completion to the Vendor;
- (iii) HK\$1,200 million shall be satisfied by the Purchaser procuring the Company to issue the Promissory Note to the Vendor on Completion; and
- (iv) the remaining balance of the Consideration (being HK\$797.5 million) shall be satisfied by the Purchaser procuring the Company to issue the Convertible Bonds to the Vendor on Completion.

The Consideration Shares, the Conversion Shares, and together with the Shares currently beneficially owned by the Vendor will represent approximately 53.85% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the Conversion Shares.

The Consideration was determined by the Vendor and the Purchaser on the basis of normal commercial terms and arm's length negotiations with reference to, among others, (i) the opportunity for the Group to gain access to the information technology services of lottery sales market in the PRC and to broaden the income base of the Group; (ii) the preliminary valuation of the Target JV performed by an independent valuer, Norton Appraisals Limited ("**Norton**"); and (iii) the business and growth potential of the Target JV, in particular, the expected revenue to be generated by the Target JV under the cooperation agreements signed, details of which are disclosed in the paragraphs headed "Information of the Target Group", "Reasons for and benefits of the Acquisition" and "Cooperation agreements on innovative lottery sales channels of the Target JV" below.

Based on a preliminary report provided by Norton, the preliminary valuation for the entire equity interest of the Target JV as at 30 April 2010 was RMB4,280 million (equivalent to approximately HK\$4,863.6 million). Such preliminary valuation is subject to, among other matters, the valuer's formal valuation report. As set out in the formal valuation report issued by Norton which is included in Appendix IV to this circular, the valuation for the entire equity interest of the Target JV as at 31 May 2010 amounted to RMB4,504 million (equivalent to approximately HK\$5,118.2 million).

LETTER FROM THE BOARD

In this connection, the Company has conducted and will, up to Completion, continue to conduct due diligence on the assets, liabilities, operations and affairs and the feasibility of the business plan of the Target Group.

Conditions precedent

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

- (1) all necessary consents and approvals required to be obtained on the part of the Target Group, the Vendor and the Purchaser in respect of the Acquisition Agreement and the transactions contemplated thereby;
- (2) the Vendor's warranties contained in the Acquisition Agreement remaining true and accurate in all respects and the Vendor having complied with all of its obligations under the Acquisition Agreement;
- (3) the GEM Listing Committee of the Stock Exchange granting listing of, and permission to deal, in the Consideration Shares and the Conversion Shares;
- (4) the passing of the resolution(s) by the Independent Shareholders at the EGM to approve the Acquisition Agreement and the transactions contemplated thereby, including but not limited to, the issue of the Convertible Bonds and the Promissory Note and the allotment and issue of the Consideration Shares and the Conversion Shares (upon conversion of the Convertible Bonds) to the Vendor;
- (5) the Stock Exchange or the Securities and Futures Commission in Hong Kong (if applicable) not deeming the transactions contemplated under the Acquisition Agreement as a "reverse takeover" under the GEM Listing Rules or not triggering the obligation to make a mandatory general offer pursuant to the Takeovers Code;
- (6) the delivery to the Purchaser of a PRC legal opinion (in the form and substance satisfactory to the Purchaser) from a PRC legal adviser appointed by the Purchaser in relation to the Acquisition Agreement and the transactions contemplated thereby and the delivery to the Purchaser of a BVI legal opinion (in the 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 BVI;
- (7) 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; and
- (8) the obtaining of a valuation report (in the form and substance satisfactory to the Purchaser) from a valuer appointed by the Purchaser and showing the value of the Target JV to be not less than RMB4,280 million (equivalent to approximately HK\$4,863.6 million).

LETTER FROM THE BOARD

The Purchaser has the right to waive all of the above conditions in part or in full, except for conditions numbered (1), (3), (4) and (5). 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 Acquisition Agreement or such later date as the Vendor and the Purchaser may agree in writing, the Acquisition Agreement shall cease and determine and neither party shall have any obligations towards each other. The Directors confirm that as at the Latest Practicable Date, conditions (5) and (8) have been fulfilled and the Purchaser has no intention to waive any of the above conditions which are capable of being waived.

As advised by the PRC legal adviser of the Company, there are no governmental or other consents or approvals required to be obtained on the part of the Target JV, the Vendor or the Purchaser in respect of the Acquisition Agreement and the transactions contemplated thereby.

Completion

Completion shall take place on the Completion Date.

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

Completion will not result in change in control of the Company. In addition, the Acquisition Agreement does not contain any terms which will render the Vendor and the parties acting in concert with him to be in a position to control the Board by appointing further representatives to the Board upon Completion. Further, the Vendor will at Completion 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 from the Completion Date.

Since the Acquisition may or may not proceed, investors are advised to exercise caution when dealing in the Shares.

THE CONSIDERATION SHARES

The Consideration Shares will be issued at the Issue Price of HK\$0.24 per Consideration Share, credited as fully paid. They will be issued to satisfy a portion of HK\$48 million of the entire Consideration. 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.

The Consideration Shares will be issued pursuant to the specific mandate to be sought at the EGM and they represent approximately 4.6% of the issued share capital of the Company as at the Latest Practicable Date. As illustrated in the table set out under the paragraph headed "Changes in shareholding structure of the Company" below, the Consideration Shares represent approximately 4.4% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares (without taking into account the Conversion Shares to be issued upon conversion of the Convertible Bonds).

LETTER FROM THE BOARD

The Issue Price represents:

- (i) a premium of approximately 14.8% over the closing price of HK\$0.209 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 14.1% over the average of the closing prices of HK\$0.2104 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 9.8% over the average of the closing prices of HK\$0.2185 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and
- (iv) a premium of approximately 53.8% over the closing price of HK\$0.156 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.

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 Acquisition Agreement which restricts the Vendor from disposing of the Consideration Shares.

THE PROMISSORY NOTE

The Promissory Note will be issued to satisfy a portion of HK\$1,200 million of the entire Consideration. The terms of the Promissory Note have been negotiated on an arm's length basis and the principal terms of which are summarised below:

Issuer	:	The Company
Principal amount	:	HK\$1,200 million
Interest	:	0.15% per annum
Maturity	:	5 years from the date of issue
Early repayment	:	The Company could, at its option, repay the Promissory Note with the relevant interests in whole or in part by giving three days' prior written notice to the Vendor. There will not be any premium or discount to the payment obligations under the Promissory Note for any early repayment

LETTER FROM THE BOARD

THE CONVERTIBLE BONDS

The balance of the Consideration of HK\$797,500,000 will be satisfied by the issue of 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 : HK\$797,500,000
- Conversion Price : The Conversion Price of HK\$0.24 per Share represents:
- (i) a premium of approximately 14.8% over the closing price of HK\$0.209 per Share as quoted on the Stock Exchange on the Last Trading Day;
 - (ii) a premium of approximately 14.1% over the average of the closing prices of HK\$0.2104 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
 - (iii) a premium of approximately 9.8% over the average of the closing prices of HK\$0.2185 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and
 - (iv) a premium of approximately 53.8% over the closing price of HK\$0.156 per share as quoted on the Stock Exchange on the Latest Practicable Date.

The Conversion Shares will be issued at an initial Conversion Price of HK\$0.24 per Conversion Share, subject to adjustment upon the occurrence of capitalisation of profits and reserves, rights issue, subdivision of Shares, consolidation of Shares or reduction of share capital or other changes (including issuance of convertible securities, warrants or options to subscribe for the Company's securities), to the share capital structure, which adjustments shall be certified in writing by the auditor of the Company or an approved merchant bank in such manner as it considers that the interests of both the Company and the Bondholder(s) are fairly and reasonably reflected

LETTER FROM THE BOARD

- 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 (i) 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 and (ii) prior written consent of the Company is obtained
- Maturity date : 5 years from the date of issue
- Conversion rights : The Bondholder(s) 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 maturity date.
- The Bondholder(s) shall have the right to convert the Convertible Bonds, in whole or in part, at any time at the Conversion Price set out above provided that:
- (i) no conversion of the Convertible Bonds shall be made if immediately upon such conversion, the Bondholder and parties acting in concert with it will hold more than 29% (or any other voting right percentage which triggers a mandatory general offer obligation under Rule 26 of the Takeovers Code); and
 - (ii) the public float of the Shares shall not be less than 25% (or any given percentage as required by the GEM Listing Rules) of the issued Shares of the Company at any one time in compliance with the GEM Listing Rules.
- 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 is not available for the fulfillment 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 Acquisition Agreement and dissolution or winding up of the Company, the 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 the seventh business day from the date of such notice at their principal amount

LETTER FROM THE BOARD

- 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, unconditional, unsubordinated and unsecured obligations of the Company and rank pari passu and ratably without preference among themselves, and with other current and future 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 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 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 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.

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 assumptions set out therein, the number of Conversion Shares issuable under the Convertible Bonds is 3,322,916,666 if the initial Conversion Price of HK\$0.24 per Conversion Share is not adjusted. The 3,322,916,666 Conversion Shares represent (i) approximately 76.8% of the issued share capital of the Company as at the Latest Practicable Date and (ii) approximately 42.3% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the Conversion Shares.

LETTER FROM THE BOARD

INFORMATION OF THE TARGET GROUP

The Target BVI is a company incorporated in the BVI and is wholly and beneficially owned by the Vendor. The Target BVI is principally engaged in investment holding. The sole asset of the Target BVI is the entire issued capital of the Target HK, which is an investment holding company and owns 51% of the registered and paid up capital of the Target JV.

The current business scope of the Target JV includes development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services.

The Target JV was originally owned as to 63% and 37% by the Original Target JV Shareholders, who are two Independent Third Parties. As advised by the Vendor, the Original Target JV Shareholders are independent from and not connected to the Vendor. The then registered capital and paid up capital of the Target JV were RMB20 million (equivalent to approximately HK\$22.7 million). At the time when the Original Target JV Shareholders approached the Vendor in the end of 2009, the Target JV was a non-state-owned enterprise which sought for investors. At that time, the Vendor had, at the first instance, referred such investment to the Group. As the Original Target JV Shareholders required the investment into the Target JV by cash of not less than RMB20 million, while the cash level of the Company at that time was not strong, the Company therefore declined the invitation to make investment in the Target JV.

After the Company had made the above decision, taken into account of the business potential of the Target JV, the Vendor then considered the potential investment in the Target JV as his personal investment at the outset. After various discussions and negotiations, the consideration for subscription of 51% interest in the Target JV was then determined on an arm's length basis after commercial negotiation between the Vendor and the Original Target JV Shareholders in January 2010 with reference to (i) the necessity of working capital for the Target JV's business operation and development in a relatively short timeframe; and (ii) the then financial track record of the Target JV. Since then, the Vendor continued to review the business prospect of the Target JV and perform various due diligence works on the Target JV. As the Vendor was generally satisfied with the results of the due diligence review on the assets, liabilities, operations, and the feasibility of the business plan of the Target JV, Target HK then entered into the Investment Agreement in early March 2010, and further into the Subscription Agreement in April 2010 with the Original Target JV Shareholders, pursuant to which the Target HK agreed to contribute RMB20.81 million (equivalent to approximately HK\$23.6 million) to obtain 51% interest in the Target JV. No valuation was performed at the time when the Vendor entered into the Investment Agreement because it was not requested by either the Vendor or the Original Target JV Shareholders. The consideration for Vendor's subscription of 51% interest in the Target JV was determined in January 2010, and the date of the Subscription Agreement only represents the time when the formal agreement was signed.

After the consideration for the Vendor's subscription was determined in January 2010 and up to the date of the Acquisition Agreement, the Vendor took steps to conduct various due diligence works on the Target JV to review its assets, liabilities, operations and the feasibility of the business plan of the Target JV, including (i) reviewing of various cooperation agreements entered into by the Target JV; (ii) reviewing the financial results of the Target Group; (iii) appointing PRC legal adviser to give

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opinions on the legality of the Target JV, the business licence and permit required by the Target JV and the legality of the cooperation agreements signed by the Target JV; (iv) interviewing the management of the Target JV; and (v) interviewing certain parties that entered into the cooperation agreements with the Target JV, etc. According to the capital verification report, the Vendor had made capital contribution of RMB5.0 million to the Target JV on 27 April 2010 as part of the subscription consideration. The new business licence for the Target JV with the increased registered capital approved was issued on 29 April 2010. Up to the date of the Acquisition Agreement on 13 May 2010, the obligation of the Vendor to pay the outstanding registered capital of the Target JV of RMB15.81 million has not been settled. On 23 June 2010, the Vendor made another capital contribution of RMB5.0 million to the Target JV as part of the subscription consideration. According to the Subscription Agreement entered into by the Original Target JV Shareholders and the Target HK, the outstanding registered capital of the Target JV of RMB10.81 million has to be paid by the Target HK on or before 20 December 2010. However, the Vendor has agreed to settle such outstanding registered capital on behalf of the Target HK on or before the Completion. After entering into the said Subscription Agreement by the Target HK and the Original Target JV Shareholders, the Vendor began to look for potential investors for the Target JV. The Vendor then approached the Group (among other potential investors) to see if they were interested in investing in the Target Group. The Vendor then provided the information of the Target JV to the Group in April 2010, including the results of due diligence works conducted by the Vendor.

After assessing the information on the Target JV, although the Target JV recorded losses in the past and was in net liability position prior to the capital contribution of RMB5.0 million by the Vendor, the Board is of the view that the Target JV is with business potential given that (i) the Target JV has secured a number of contracts with relevant lottery issuing centres, (ii) the Target JV has sufficient operating capital to continue and develop its business after the capital contribution by the Vendor (including the outstanding registered capital of RMB15.81 million to be contributed by the Vendor before Completion); and (iii) the continuous growth of the PRC lottery market. It is agreed between the Vendor and the Group to determine the consideration with reference to the preliminary valuation performed by an independent valuer, as the Board and the Vendor consider it as the most independent available way to determine the Consideration, in particular, the Target JV has limited track record and independent valuation can better reflect the business potential of the Target JV and the market potential of the lottery industry in the PRC. The determination of the Consideration with reference to the independent valuation was agreed by the Vendor and the Group with a view to provide a fair basis to determine the value of the Target JV. After the results of the preliminary valuation are known, the Company proposed to the Vendor to acquire the interests of the Target JV from the Vendor with consideration partially settled by cash and partially settled by Consideration Shares, Promissory Note and/or Convertible Bonds. After commercial negotiations between the Vendor and the Company on an arm's length basis, both parties then agreed to enter into the Acquisition Agreement in mid of May 2010.

The Board has noticed the estimate cost incurred by the Vendor for the Target Group which amounted to approximately HK\$36 million (including the capital contribution made and to be made by the Vendor (on behalf of Target HK) to the Target JV of RMB20.81 million (equivalent to approximately HK\$23.6 million) and a professional fee to technical consultants of HK\$13 million). The Directors are of the view that the investment in the Target JV by the Vendor is a separate transaction and such investment figure only forms one of the various criteria considered by them. As disclosed

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in the section headed “Reasons for and benefits of the Acquisition” below, the Target JV signed a new cooperation agreement with Tianjin Welfare Lottery Issuing Center in May 2010, in which the Target JV agreed to provide software system for the operation of lottery sales through mobile phone. The Board considers this new cooperation agreement with Tianjin Welfare Lottery Issuing Center, together with the other contracts entered into with relevant lottery issuing centres, demonstrates the ability of the Target JV to develop its business and the continuous effort made by the management of the Target JV to foster and build up its business in the lottery related industry. With the ability to expand its business, the Board believes the Target JV has good market potential, which was one of the assessing criteria when determining the Consideration. Besides, the Group has engaged Norton to conduct valuation on the updated value of the Target JV and conducted interview with Norton to understand the assumptions and basis of the preliminary valuation of the Target JV. In addition, the Group has appointed an independent organisation to conduct independent researches to further understand the trends and prospects of the lottery industry in the PRC.

The Board has reviewed the results of all the due diligence works conducted by the Vendor when considering the Acquisition. With the support of the satisfactory due diligence results done by each of the Vendor and the Group, and given that (i) the Consideration was arrived at after commercial negotiations which based on the preliminary valuation made by independent valuer; (ii) the future business and growth potential of the Target JV; and (iii) the Consideration of HK\$2,112.5 million which represents at least 14.8% discount to the preliminary 51% valuation of the Target JV of RMB4,280 million (equivalent to approximately HK\$4,863.6 million), the Board is of the view that the Consideration is fair and reasonable and in the interest of the Shareholders and the Company as a whole.

The Target JV is owned as to 51% by the Target HK, and as to 30.87% and 18.13% by the Original Target JV Shareholders respectively. Subsequent to the subscription of the Target JV by the Target HK, the paid-up registered capital and total investment amount of the Target JV are RMB40.81 million (equivalent to approximately HK\$46.4 million) and RMB59 million (equivalent to approximately HK\$67 million) respectively. Save for the entire interest in the Target HK and 51% interest in the Target JV, the Target BVI did not have other material assets and properties as at the Latest Practicable Date. Ms. Wu Wei Hua, an executive Director is a director of the Target JV.

The Target JV, a professional company specialised in the provision of innovative sales channel technical service and operation service of lottery sales to lottery issuing centres in the PRC, has accumulated extensive experiences in innovative sales channel development and operation service of lottery sales. The Target JV has developed various innovative sales systems and software including lottery sales through mobile phone networks, short-message-services of mobile phones, and interactive voice response system of telephones as well as lottery sales through banks’ automatic-teller machines, self-service terminals, digital televisions (“DTV”), internet protocol television, and mobile terminals. The customers of the Target JV applied the innovative sales channel software developed by the Target JV for the acceptance of the lottery sales from public whereby the Target JV will receive service income from its customers in proportion to the amount of acceptance of the lottery sales through the relevant innovative sales channels. The major customers of the Target JV are disclosed in the paragraph headed “Cooperation agreements on innovative lottery sales channels of the Target JV” below. Given that the Target JV is principally engaged in software development, the Target JV does not have major suppliers.

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As the Target JV relies on the software developed by it to generate income, the Target JV obtained a number of intellectual property rights including “Software Copyright Registration Certificates” (軟件著作權登記證書), “Software Product Registration Certificates”(軟件產品登記證書) and “Patent Certificates”(專利證書) for certain systems and software developed by it.

The Target JV currently owns eight copyrights on computer software registered in the National Copyright Administration of the PRC (中國國家版權局), and owns nine software products registration certificates issued by the Shenzhen Science and Information Bureau (深圳市科技和信息局). Besides, the Target JV obtained an outward appearance patent authorized by the State Intellectual Property Office of the PRC (國家知識產權局) named as “desktop intelligent lottery sales terminal (桌面智能彩票銷售終端(MT2006))”. The details of these certificates are summarized as below:

(i) 軟件產品登記證書 (Software Product Registration Certificates)

The Target JV has obtained nine software product registration certificates issued by Shenzhen Science and Information Bureau (深圳市科技和信息局) and Shenzhen Science, Industry, Trade and Information Technology Commission (深圳市科技工貿和信息化委員會). Details of these certificates are summarized as below:

No.	Certificate No.	Name of software	Date of issue
1	深DGY-2006-1125	環彩普達ATM彩票銷售軟件V1.0.2	29 December 2006
2	深DGY-2006-1126	環彩普達GIS彩票銷售綜合管理軟件V1.0.2	29 December 2006
3	深DGY-2006-1153	環彩普達嵌入式移動彩票銷售軟件V1.0.2	29 December 2006
4	深DGY-2006-1124	環彩普達移動電話在線銷售彩票軟件V1.0.2	29 December 2006
5	深DGY-2008-0245	環彩普達彩票銷售中間業務平臺軟件V2.0.2	31 March 2008
6	深DGY-2008-0246	環彩普達零售管道彩票銷售軟件V1.0.2	31 March 2008
7	深DGY-2010-0553	環彩普達數字電視(DTV)彩票軟件V2.0.2	20 May 2010
8	深DGY-2010-0554	環彩普達網絡交互電視(IPTV)彩票軟件V2.0.2	20 May 2010
9	深DGY-2010-0555	環彩普達委託購買彩票軟件V2.0.2	20 May 2010

(ii) 軟件著作權登記證書 (Software Copyright Registration Certificates)

The Target JV has obtained eight software copyright registration certificates issued by the National Copyright Administration of the PRC (中國國家版權局). Details of these certificates are summarized as below:

No.	Registration No.	Name of software	Date of issue
1	2008SR05281	找零彩票銷售系統V1.0	10 March 2008
2	2008SR05282	彩票中間業務平臺系統 簡稱：CSPV1.0	10 March 2008
3	2008SR05283	數字電視彩票銷售系統V1.0	10 March 2008
4	2008SR05284	移動彩票銷售終端V1.0 簡稱:MT2006	10 March 2008
5	2008SR05285	委託購買彩票系統V1.0	10 March 2008
6	2008SR05286	基於GIS的彩票業務綜合管理系統V1.0	10 March 2008
7	2008SR05287	銀行自助渠道彩票銷售系統V1.0	10 March 2008
8	2008SR06986	移動電話在線銷售彩票系統V1.0	11 April 2008

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(iii) 外觀設計專利證書 (Certificate of Design Patent)

The Target JV has obtained a certificate of design patent dated 22 October 2008 issued from the State Intellectual Property Office (國家知識產權局) and it is named as “desktop intelligent lottery sales terminal (桌面智能彩票銷售終端 (MT2006))”. The expiry date of the patent is 17 September 2017.

It was crucial for the Target JV to utilize the intellectual property rights and copyrights related to the lottery sales system and software developed by it to provide the innovative lottery sales channel services to its customers.

In addition, the Target JV obtained a Software Enterprise Verification Certificate (軟件企業認定證書) from the Shenzhen Science and Information Bureau, an Advanced Technology Enterprises Certificate (高新技術企業證書) and an ISO Certificate (國際標準認證證書) (ISO 9001:2000) on 30 March 2008, 31 December 2009 and 26 September 2008, respectively.

As advised by the PRC legal adviser of the Company, the Target JV is a developer of software systems and a technical service provider for sale of lottery, which does not require any specific licence or permit in the PRC other than its business licence.

According to the audited financial statements of the Target BVI as set out in Appendix IIA to this circular, the net loss of the Target BVI from 4 January 2010 (being its incorporation date) to 28 February 2010 was approximately HK\$10,600 and the audited net liabilities of the Target BVI as at 28 February 2010 was approximately HK\$10,592.

According to the audited financial statements of the Target HK as set out in Appendix IIB to this circular, the audited net loss of the Target HK from 8 June 2009 (being its incorporation date) to 31 December 2009 and for the two months period ended 28 February 2010 was approximately HK\$9,545 and HK\$217 respectively, and the audited net liabilities of the Target HK as at 31 December 2009 and 28 February 2010 was approximately HK\$9,544 and HK\$9,761 respectively.

According to the audited financial statements of the Target JV as set out in Appendix IIC to this circular, the audited net loss of the Target JV for the two years ended 31 December 2009 was approximately HK\$8.3 million and HK\$4.8 million respectively, and the audited net liabilities of the Target JV as at 31 December 2009 and 28 February 2010 was approximately HK\$11.3 million and HK\$12.3 million respectively. A valuation report on the Target JV is included in Appendix IV to this circular.

The cost of the Target Group to the Vendor up to Completion is estimated by the Vendor to be about HK\$36 million (including the capital contribution made and to be made by the Vendor (on behalf of the Target HK) to the Target JV of RMB20.81 million (equivalent to approximately HK\$23.6 million) and a professional fee to technical consultants of HK\$13 million).

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

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CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the issue of the Consideration Shares; and (iii) immediately after the issue of the Consideration Shares and the exercise of the Convertible Bonds (up to the conversion restriction of 29% and in full) are as follows:

Shareholders	As at the Latest Practicable Date		Immediately after the issue of the Consideration Shares		Immediately after the issue of the Consideration Shares and the exercise of the Convertible Bonds up to the conversion restriction of 29% (Note 2)		Immediately after the issue of the Consideration Shares and the exercise of the Convertible Bonds in full (Note 4)	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Mr. Leung and parties acting in concert with him								
Existing Shares (Note 1)	704,089,400	16.27	704,089,400	15.55	704,089,400	13.80	704,089,400	8.97
Consideration Shares to be issued	-	-	200,000,000	4.42	200,000,000	3.92	200,000,000	2.55
Shares to be issued after the exercise of the Convertible Bonds (Note 2)	-	-	-	-	575,758,481	11.28	3,322,916,666	42.33
Sub-total	704,089,400	16.27	904,089,400	19.97	1,479,847,881	29.00	4,227,006,066	53.85
Mr. Ng Kwok Chu, Winfield (Note 3)	472,500	0.01	472,500	0.01	472,500	0.01	472,500	0.01
Public Shareholders	3,622,603,347	83.72	3,622,603,347	80.02	3,622,603,347	70.99	3,622,603,347	46.14
Total	4,327,165,247	100.00	4,527,165,247	100.00	5,102,923,728	100.00	7,850,081,913	100.00

Notes:

- Mr. Leung is an executive Director. Out of 704,089,400 Shares held by Mr. Leung, 1,474,400 Shares are held by Speedy Well Investments Limited which is wholly and beneficially owned by Mr. Leung.
- Pursuant to the terms of the Convertible Bonds, the Bondholder and parties acting in concert with it cannot hold more than 29% of the issued share capital of the Company as a result of conversion of the Convertible Bonds.

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3. Mr. Ng Kwok Chu, Winfield is an executive Director.
4. This column is shown for illustration purpose only and it will never occur as Mr. Leung and his concert parties cannot hold more than 29% of the issued share capital of the Company as a result of conversion of the Convertible Bonds.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the sales of computer software and hardware as well as exploration of mining resources business in the PRC. The Group has been seeking suitable investment opportunities from time to time to diversify its existing business portfolio and to broaden its source of income. In this regard, the Directors believe that the Acquisition will provide an opportunity for the Group to gain access to the promising innovative sales channel services of lottery business and welfare lottery market in the PRC and broaden the income base of the Group, thereby enhancing the Group's financial position and profitability in the future.

In addition, taking into account the prospects of the PRC's lottery sales industry as set out in the paragraph headed "Overview of the lottery sales industry" below and the increase in popularity and penetration of digital televisions and mobile phones in the PRC, related innovative sales channel services for welfare lottery users also presents numerous business opportunities. Given the rising popularity of both of the lottery market and demand for innovative sales channel services from lottery users in the PRC, the Directors are optimistic about the prospect of the Target JV despite its current loss-making position.

Taking into account the above reasons and benefits of the Acquisition, the Directors believe that the Acquisition would enhance the future growth and profitability of the Group, and the Board (excluding the Vendor who has abstained from voting at the relevant resolutions) is of the view that the terms of the Acquisition are fair and reasonable and the Acquisition is on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole.

COOPERATION AGREEMENTS ON INNOVATIVE LOTTERY SALES CHANNELS OF THE TARGET JV

Before entering into cooperation agreement with the Target JV, respective lottery issuing organizations (i.e. local lottery issuing centres) sell the welfare or sport lottery through traditional or other channels. With the purpose to explore additional revenue through provision of new and innovative sales channels, the respective lottery issuing centres negotiated with the Target JV and entered into different cooperation agreements with the Target JV. Since 2006, the Target JV has signed a number of cooperation agreements regarding innovative sales channel operation services with lottery issuing organizations (i.e. local lottery issuing centres), which includes, Shenzhen Welfare Lottery Issuing Center (深圳市福利彩票發行中心), Guangxi Welfare Lottery Issuing Center (廣西福利彩票發行中心), Chongqing Welfare Lottery Issuing Center (重慶市福利彩票發行中心), Henan Welfare Lottery Issuing Center (河南省福利彩票發行中心) and Tianjin Welfare Lottery Issuing Center (天津市福利彩票發行中心). The Target JV also entered into cooperative agreements or memoranda with various

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welfare lottery-issuing organizations and socialized public platform organizations (社會化公用平臺機構). Set out below is a summary of the major cooperation agreements entered into by the Target JV as of the Latest Practicable Date:

Major contracting party	Time when agreement was entered into	Contract term	Contracted services	Estimated time for commencement of business operation
1. Shenzhen Welfare Lottery Issuing Center	March 2007 (with supplemental agreement signed in December 2007)	3 years since business operation starts, renewable automatically if all parties agree	Provide value-added operation software systems for lottery sales operating platform and self-service banking terminals, including technical service, update and maintenance	September 2010
2. Shenzhen Welfare Lottery Issuing Center	September 2009	5 years since business operation starts, renewable for 5 years if both parties agree	Provide value-added operation software system for lottery sales through DTV, including technical service, update and maintenance	September 2010
3. Shenzhen Welfare Lottery Issuing Center	June 2008	From 28 July 2008 to 27 July 2011, with the privilege right to renew the contract if both parties agree	Provide value-added operation software system for lottery sales through commercial retail channel agent	started in July 2008
4. Guangxi Welfare Lottery Issuing Center	August 2008	5 years since business operation starts, renewable if all parties agree	Provide value-added operation software system for lottery sales through DTV, including system build-up and operation	September 2010 with a trial period of six months
5. Chongqing Welfare Lottery Issuing Center	March 2009	8 years since business operation starts, renewable for 5 years if all parties agree	Provide value-added operation software system for lottery sales through DTV, including technical service, update and maintenance	started in April 2010 with a trial period of six months

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Major contracting party	Time when agreement was entered into	Contract term	Contracted services	Estimated time for commencement of business operation
6. Chongqing Welfare Lottery Issuing Center	July 2009	8 years since business operation starts, renewable for 5 years if both parties agree	Provide software system and technical service for Chongqing welfare lottery sales through mobile phone project	started in April 2010 with a trial period of 180 days
7. Chongqing Welfare Lottery Issuing Center	November 2008	5 years since business operation starts, renewable for 5 years if both parties agree	Provide value-added operation software system for lottery sales through commercial retail channel agent	started in April 2010
8. Henan Welfare Lottery Issuing Center	November 2007	3 years since business operation starts	Provide software system and technical service for Henan welfare lottery sales through mobile phone project	January 2011
9. Tianjin Welfare Lottery Issuing Center	May 2010	From 7 May 2010 to 31 July 2012	Provide software system and technical service for Tianjin welfare lottery sales through mobile phone project	July 2010
10. Shan Dong Hong Tu Technology Co., Ltd	November 2009	3 years since 2 November 2009	Provide a self-developed online lottery sales operating platform – “Touzhubao”, including technical service, update and maintenance	July 2010

Pursuant to the cooperation agreements, the Target JV was authorized to utilize the lottery sales system and software developed by it to provide the innovative sales channel technologies in Shenzhen municipal, Guangxi province, Chongqing municipal, Henan province and Tianjin municipal respectively and to provide sales channel operation services in respect of DTV welfare lottery sales, mobile phone welfare lottery sales, commercial retail channel agent welfare lottery sales and self-service banking equipment welfare lottery sales to the relevant welfare lottery issuing centers for a renewable term

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of three to eight years from the time of business operation starts in the aforesaid regions. The Target JV has provided technical services and sales operation services to Chongqing Welfare Lottery Issuing Center, the first PRC city operating DTV lottery sales system.

Under the cooperation agreements, the Target JV will charge the respective lottery issuing center a service fee based on the scope of services provided (provision of lottery sales system software) and such fees will be calculated based on a percentage of the income from sales of lottery by the respective lottery issuing center ranging from 2% to 9%. The service fee represents the charges related to the provision of lottery sales system software for the aforementioned innovative sales channels, technical maintenance services as well as sales operation services by the Target JV to the welfare lottery issuing center and cooperative third party (if any) in the PRC. The cooperative third parties (if any), are referred to as some socialized public platform organizations (社會化公用平臺機構), such as China Construction Bank (Shenzhen Branch) (中國建設銀行股份有限公司深圳市分行), Guangxi Broadcasting Information Network Company Limited (廣西廣播電視信息網路股份有限公司), and Chongqing Broadcasting Group Limited (重慶廣播電視集團(總台)). The service fee in general will be paid monthly or quarterly by the respective welfare lottery issuing center to the Target JV and cooperative third party (if any) in the PRC.

MODE OF BUSINESS OPERATION OF THE TARGET JV

The Target JV, a professional company specialised in the provision of innovative sales channel technical service and operation service of lottery sales to lottery issuing centres in the PRC, has accumulated extensive experience in innovative sales channel development and operation service of lottery sales.

As previously mentioned, the Target JV has developed various innovative sales systems and software including lottery sales channels through (i) 數字電視彩票銷售系統 (“Digital TV (DTV/IPTV) lottery sales system”); (ii) 零售渠道彩票銷售系統 (“Change” lottery sales system at commercial retail sales agents”); (iii) 嵌入式個人彩票銷售終端系統 (“Embedded mobile lottery sales system”); (iv) 銀行自助終端彩票銷售系統 (“Banks’ self help terminals lottery sales system”); (v) 移動電話在線彩票銷售系統 (“Mobile phone online lottery sales system”); and (vi) 網上委托購買彩票銷售系統 (“Authorized online lottery purchasing sales system”). The product information and function characteristics of each innovative sales system is described as follows:

(i) Digital TV (DTV/IPTV) Lottery Sales System

The digital TV lottery sales system is a type of brand new interactive computer lottery, utilizing the two-way telecommunication technology and the media platform of digital TV. It supports both the traditional long-cycle computer lottery and online quick-drawing computer lottery.

The digital TV lottery sales system is invented to allow lottery purchasers to purchase lotteries at home. The lottery purchasers use their own account number and password to purchase lotteries, with the funds transferred directly through banks and monitored by the lottery centres for fund safety.

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The data in the digital TV lottery sales system is encrypted during the transmission process, and is fed through specialized line to the lottery intermediary business platform, which was in turn connected with the lottery centre. This process ensures a high level of safety and stability.

This lottery sales system is attractive in the sense that the lottery purchasing accounts are linked with the lottery purchasers' bank accounts. This makes the lottery purchases more convenient and with lesser handling charges. In addition, more services can be offered through the rich-color TV lottery purchasing screen, which would arouse lottery purchasers' interests in lottery.

(ii) "Change" Lottery Sales System at Commercial Retail Sales Agents

Under the "change" lottery sales system, the customers at the commercial retail stores can use the small values of changes received from settlement to buy lotteries. The "change" lottery sales system uses RMB10 cent as the sales unit, and the change of each customer used to purchase lotteries will be converted into multiples of sales unit. According to current national policy, one lottery amount should be RMB2, and the change lottery purchased by the customers will be accumulated into one lottery collectively and be used to buy the lottery for the customers automatically. Customers will be informed if any reward is won and the rewards will directly be transferred to the users' membership cards without any waiving or missing of rewards.

With this arrangement, the vast majority of customers can get rid of the problem in handling small changes during cash settlement. This also offers customers a good chance to win the lottery reward with such a small amount of money. On the other hand, the administrative work involving the changes, such as counting, transportation and storage of coins, can be greatly reduced at consumption venues, saving much of the management cost and time.

(iii) Embedded Mobile Lottery Sales System

Compared to traditional fixed lottery sales channel, this embedded mobile lottery sales system is a portable, wireless and embedded lottery sales terminal. This sales terminal offers mature, reliable and safe products through the colorful 7" touch screen and acts as a kind of extension and supplementation of the current fixed terminal service.

The embedded mobile lottery sales system provides convenience to lottery purchases in saving the queuing time at the fixed terminal stations. The mobile terminal uses the inlaid system technology which would be free from virus attacks and all the information in the terminal are carried and transmitted on a real-time basis.

(iv) Banks' Self Help Terminals Lottery Sales System

The banks' self help terminals lottery sales system is for the lottery purchasers to utilize the bank transaction platforms, including the automatic-teller machines, inquiry terminals, telephones, transaction websites and counter comprehensive systems, to choose the lottery patterns and numbers and hence activate the bank transaction platform to connect the hotline system of the lottery centres for lottery purchasing, lottery drawing and reward winning.

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This system turns each bank's network point to lottery sales point. As the banks' networks cover mainly the populous areas, such as commercial areas and shopping malls, this complements the lottery sales networks where the coverage is insufficient.

The bank cards can be used for lottery purchases. This arrangement allows the lottery purchasers to buy lottery while making deposits, reducing the intermediary payment and offering great convenience for lottery purchasers. The advanced self help interface and colorful large screens at banks provide attractive and efficient lottery purchasing experiences and arouse lottery purchasers' interests to a greater extent.

(v) *Mobile Phone Online Lottery Sales System*

The mobile phone online lottery sales system is very different from the traditional short message service. It adopts the easy-to-use graphic interface and allows the lottery purchasers to choose the lottery directly on the screen. The lottery purchasing account number is directly linked with the bank account number of the lottery purchasers which can reduce handling fees and make the process more convenient.

Under this system, lottery purchasers can buy lotteries at any place and any time with their mobiles. The data transmitted in the terminal is with encryption and on a real-time basis. Small rewards will be directly transferred to the lottery winners' bank accounts and large rewards will be informed to the lottery winners immediately to avoid any possibility of waiving or missing.

(vi) *Authorized Online Lottery Purchasing Sales System*

The authorized online lottery purchasing sales system is to use the internet technology and mature e-business platform to provide personal lottery agency purchasing experience and reliable account management service to the lottery purchasers. This system fulfills the legal requirements for lottery purchasing agency by entering into online purchasing contracts with clients.

The whole agency business process would be conducted under the supervision of the lottery centres so as to protect the lottery purchasers' interests from any losses. The agency service also offers complete account inquiry and maintains historical purchasing records for reference.

With the interaction between the agents and the lottery purchasers, the authorized online lottery purchasing sales system can help to enhance the convenience and efficiency of the lottery purchasing process.

Revenue model and major customers

Most of the revenue of the Target JV is expected to be derived from providing the innovative sales channel technologies and sales channel operation services in respect of DTV welfare lottery sales, mobile phone welfare lottery sales, commercial retail channel agent welfare lottery sales and self-service banking equipment welfare lottery sales to the relevant welfare lottery issuing centers, which includes, Shenzhen Welfare Lottery Issuing Center (深圳市福利彩票發行中心), Guangxi Welfare Lottery Issuing Center (廣西福利彩票發行中心), Chongqing Welfare Lottery Issuing Center (重慶市福利彩票發行中心), Henan Welfare Lottery Issuing Center (河南省福利彩票發行中心) and Tianjin Welfare Lottery Issuing Center (天津市福利彩票發行中心).

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The Target JV will charge the respective lottery issuing center a service fee based on the scope of services provided (provision of lottery sales system software) and such fees will be calculated based on a percentage of the income from sales of lottery by the respective lottery issuing center ranging from 2% to 9%. The service fee represents the charges related to the provision of lottery sales system software for the aforementioned innovative sales channels, technical maintenance services as well as sales operation services by the Target JV to the welfare lottery issuing centers and cooperative third parties (if any) in the PRC. The service fee in general will be paid monthly or quarterly by the respective welfare lottery issuing center to the Target JV and cooperative third parties (if any) in the PRC.

The Directors expect that the relevant welfare lottery issuing centers will remain as the major customers for the Target JV's business in the future.

Feasibility study on the Target Group

Before the Acquisition, the Board has performed series of feasibility study on the business of the Target Group, including but not limited to:

- obtained and reviewed statistical data and information from various external public sources and market research company concerning the lottery industry in the PRC, such as lottery sales forecast in the PRC, proportional share of welfare lottery to the whole lottery industry; projected welfare lottery sales in each respective territory, proportional share of innovative sales channel(s) to the welfare lottery sales in each respective territory;
- reviewed the business proposal prepared by the Target JV;
- reviewed various cooperation agreements and memoranda of understanding entered into by the Target JV;
- reviewed the financial results of the Target Group;
- inspected the certificates regarding the patents and copyrights owned by the Target JV;
- appointed PRC legal advisers to give opinions on the legality of the Target JV, the business licence and permit required by the Target JV and the legality of the cooperation agreements signed by the Target JV and certificates regarding patents and copy rights owned by the Target JV;
- interviewed the management of the Target JV;
- engaged an independent valuer to conduct valuation on the Target JV and interviewed with the valuer to understand the assumptions and basis of the preliminary valuation of the Target JV; and
- discussed with the Vendor to understand the background of the transactions, including when and how the Vendor invested in the Target JV, the basis of the consideration for subscription of 51% interest in the Target JV and review of the due diligence works performed by the Vendor, etc.

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The Board was satisfied with the results of the feasibility study, which shows (i) promising business potential in the welfare lottery industry in the PRC; (ii) good standing of cooperation agreements entered into by the Target JV; (iii) good standing of the certificates regarding the patents and copyrights owned by the Target JV; (iv) satisfactory PRC legal opinions on the legality of the Target JV and the cooperation agreements; (v) a professional and experienced management team of the Target JV; and (vi) a professional and independent valuation report on the Target JV, and no material problem was found.

BUSINESS STRATEGY, PLAN AND INTENTION

The Target JV has a business strategy to become one of the leading software system support providers in relation to PRC's lottery sales. After Completion, the Target JV will expand its business, continue to approach the respective lottery issuing centres in different territories, introduce the innovative sales channel(s) developed by it and secure additional contracts with relevant lottery issuing organizations. The cooperation agreements confirmed by the Target JV as set out in the paragraph headed "Cooperation agreements on innovative lottery sales channels of the Target JV" cover locations in Shenzhen municipal, Guangxi province, Chongqing municipal, Henan province and Tianjin municipal of the PRC. The Target JV plans to introduce its services to lottery issuing organizations and socialized public platform organizations (社會化公用平臺機構) in other territories of the PRC such as Baoding city of Hebei province, Qingdao city of Shandong province, Xiamen city of Fujian province, Fujian province, Guizhou province, Wuhan city and Huangshi city of Hubei province of the PRC. To the best knowledge of the Directors, there are no other competitors currently providing innovative sales channel technical service in these territories, and there are no particular entry barriers which may prevent the Target JV from entering into the prospective market. It is crucial for the Target JV to utilize the intellectual property rights and copyrights related to the lottery sales system and software developed by it to obtain a competitive advantage and carry out the lottery related business in the prospective market. As at the Latest Practicable Date, apart from the confirmed cooperation agreements, the Target JV has entered into a number of memoranda of understanding in relation to the provision of value-added operation software system for lottery sales in different territories of the PRC. However, the Target JV has not obtained any exclusive right under these memoranda of understanding to carry out the lottery related business in the relevant territories. Set out below is a summary of the relevant memoranda of understanding entered into by the Target JV as of the Latest Practicable Date:

Major contracting party	Time when memorandum was entered into	Contract term	Contracted services	Estimated time for commencement of business operation
1. Baoding Guanglian Digital New Media Co., Ltd (保定廣聯數字新媒體有限公司)	February 2007	5 years since business operation starts, renewable for every 2 years if both parties agree	Provide value-added operation software system for lottery sales through DTV, internet, and mobile phone project, including technical service, update and maintenance	To be determined

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Major contracting party	Time when memorandum was entered into	Contract term	Contracted services	Estimated time for commencement of business operation
2. Qingdao Cable Digital TV Development Co., Limited (青島有線寬帶數字電視發展有限公司)	September 2008	To be determined	Provide value-added operation software system for lottery sales through DTV, including technical service, update and maintenance	To be determined
3. Xiamen Broadcasting Network Co., Limited (廈門市廣播電視網絡有限公司)	June 2008	To be determined	Provide value-added operation software system for lottery sales through DTV, including technical service, update and maintenance	To be determined
4. Fujian Welfare Lottery Issuing Center	November 2008	To be determined	Provide value-added operation software system for lottery sales through commercial retail channel agent	To be determined
5. Fujian Welfare Lottery Issuing Center	June 2008	To be determined	Provide value-added operation software system for lottery sales through DTV, including technical service, update and maintenance	To be determined

As disclosed in Appendix IIC to this circular, the capital commitments of the Target JV as at 28 February 2010 was approximately HK\$0.6 million. As the Target JV is principally engaged in the development of software operation systems for innovative lottery sales channels, the Target JV may require capital to maintain and continuously upgrade software system as well as to purchase hardware. Currently, the Directors estimated that the capital expenditure for the Target JV will be around HK\$1.5 million per year, which would mainly used for the purchase of computer hardware and supportive accessories for the development of lottery sales operation systems. The Directors consider the capital expenditure on Target JV is not material as compared to the expected revenue to be generated by the Target JV. It is expected that the Target JV would fully execute the contracted services under each of the cooperation agreements signed and commence to generate revenue for the Group from 2011, and the funding requirements for operations of the Target JV will be funded by capital contributed by the Vendor under the Subscription Agreement and the revenue to be generated by the Target JV.

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After Completion, the Company does not intend to have any significant changes to the Group's existing business and the Group will continue to engage in the sales of computer software and hardware as well as exploration of mining resources business in the PRC and the Group will continue to explore other business opportunities to strengthen its revenue stream. There will not be any change in board composition as a result of Completion. As at the Latest Practicable Date, the Company has not entered into and does not intend to enter into any agreement, arrangement, understanding or negotiation about any disposal or termination or scaling down of any existing business or asset.

SUFFICIENCY AND ALLOCATION OF RESOURCES

The Directors, after due and careful enquiry, are of the opinion that the Enlarged Group has sufficient working capital for its present requirements and the Enlarged Group will not have any material funding requirement for the businesses of the Enlarged Group within one year from the date of this circular. The Directors may consider to repay the Convertible Bonds and Promissory Notes (with a maturity of five years) by bank facilities, internal resources or other fund raising exercises upon maturity. In the event that the Group does not have sufficient resources to repay the Convertible Bonds and Promissory Note when they become due, the Vendor would consider to extend the maturity of the Convertible Bonds and Promissory Note for further five years.

After Completion, the Company plans to have Mr. Leung and Ms. Wu Wei Hua, both are executive Directors, involve in the operation of the Target JV. The biographical details of the Directors and the senior management (including the existing management of the Target JV) who will be responsible for the operation of the Target JV are as follows:

Mr. Leung Ngai Man, the chairman of the Board and director of various subsidiaries of the Group, has over 23 years' experience in the areas of trading, property development and management in the PRC. He has established an extensive business and social network and relationship with numerous PRC companies. He commenced business in the property development sector in the 1990s. Mr. Leung is also the chairman of the board and an executive director of Sino Prosper State Gold Resources Holdings Limited, a company listed on the Main Board of the Stock Exchange.

Ms. Wu Wei Hua, an executive Director, graduated from Donghua University in the PRC and obtained a Bachelor Degree in Textile Engineering. Ms. Wu has been working in the industry of finance and administration management in the PRC since 1995 and has gained extensive management experience throughout these years.

Mr. Ji Feng Qing, the chief executive officer of the Target JV, graduated from Nankai University in the PRC and obtained a Bachelor Degree in History. Currently, Mr. Ji is studying for the Master of Finance in Nankai University. Mr. Ji has been working in the industry of lottery business operation and information technology in the PRC since 1993 and has gained extensive management experience throughout these years. Mr. Ji has over 17 years' experience in the areas of marketing, sales, finance and management in the information technology industry. Mr. Ji is one of the founders and shareholders of the Target JV.

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Mr. Wu Bin, the chief technology officer of the Target JV, graduated from Tsinghua University in the PRC and obtained a Master Degree in Electrical Engineering. Mr. Wu has been working in the industry of lottery business operation and electrical engineering in the PRC since 2001 and has gained extensive management experience throughout these years. Mr. Wu has over 10 years' experience in the areas of marketing, sales, and management in the electrical engineering and information technology industry. Mr. Wu is one of the founders and shareholders of the Target JV.

OVERVIEW OF THE LOTTERY SALES INDUSTRY

At the end of 2008, the global lotteries had generated a revenue of approximately US\$227.3 billion, which represented a growth of approximately 1.3%, compared to approximately US\$224.3 billion in 2007. Recently, the largest lottery markets are those in the US, Italy, Spain, China and France.

At the end of 2008, the size of China's lottery market was about US\$15.2 billion, ranking the fourth in the world. In 2008, the US was the world's largest lottery market and its lottery per capita spending was approximately US\$180. China had the lowest lottery per capita spending among the top lottery markets in the world, which was approximately US\$12. The following table illustrates the data of the top ten largest lottery markets in 2008.

Table 1: Top ten lottery markets in the world at 2008:

Rank	Country	Total lottery sales (US\$ in million)	Population (in million)	Per capita spending on lottery (US\$)	% of gross domestic product
1	US	54,340	301.1	180.47	0.38%
2	Italy	27,297	58.1	469.83	1.19%
3	Spain	17,449	40.4	431.91	1.09%
4	China	15,225	1,321.9	11.52	0.35%
5	France	14,383	63.7	225.79	0.50%
6	Japan	11,763	127.4	92.33	0.24%
7	Germany	11,642	82.4	141.29	0.32%
8	Greece	7,812	10.7	730.09	2.19%
9	UK	7,440	60.8	122.37	0.28%
10	Canada	5,903	33.4	176.74	0.42%

Source: 2008 World Lottery Almanac

The consumer spending and gross domestic products per capita in the PRC have been demonstrating an increasing trend in recent years and it is expected that the PRC citizens will increase its spending on welfare lottery entertainment accordingly. According to the statistics released by the Ministry of Finance of the PRC, the total revenue generated from the lottery business in the PRC was approximately RMB106.01 billion and RMB132.48 billion in 2008 and 2009 respectively, representing an increase of

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approximately 25%, among which, revenue generated by welfare lottery business has increased from approximately RMB60.40 billion in 2008 to RMB75.61 billion in 2009, representing an increase of approximately 25.2%. Such considerable growth corresponded with the growth of the PRC's gross domestic products of approximately 8.7% as quoted on National Bureau of Statistics of China (中國國家統計局) for the same period. The increase was mainly contributed by Yunnan province, Guangdong province, Jiangsu province, Shandong province and Shanghai. It is estimated that there are about 200 million lottery fans in China as at 2009, according to relevant statistics. The following table and diagram illustrate the growth of China's lottery market sales during the period 2000 to 2009.

Table 2: Total lottery sales in the PRC from 2000 to 2009:

	Total lottery sales <i>(billion in RMB)</i>	Welfare lottery sales <i>(billion in RMB)</i>	Sports lottery sales <i>(billion in RMB)</i>	Growth of total lottery sales <i>(%)</i>
2000	18.100	10.740	7.360	N/A
2001	28.887	13.987	14.900	59.60%
2002	38.572	16.872	21.700	33.53%
2003	40.140	20.040	20.100	4.07%
2004	38.057	22.657	15.400	-5.19%
2005	71.385	41.185	30.200	87.57%
2006	81.930	49.630	32.300	14.77%
2007	100.000	62.000	38.000	22.06%
2008	105.947	60.347	45.600	5.95%
2009	132.380	75.580	56.800	25.80%

Source: Ministry of Finance, the PRC

The growth of the PRC lottery market has been facilitated by a number of drivers and initiatives, including favorable population demographics and positive economic growth in the region. Since 1987, the lottery industry in China has experienced two explosive growths in 1995 and 2007 respectively due to the introduction of new lottery sales system. Historical has it that the new sales channels were proven have a great positive impact to the lottery market in China. Before 1995, the lottery tickets were only sold in a concentrated way. But later computer was utilized as a medium of lottery sales. The introduction of computer lottery boosted up the lottery sales from approximately RMB17 billion in 1994 to RMB71 billion in 2005, approximately representing a triple growth in sales. Until 2007, the lottery industry in China has experienced another revolution by launching more ancillary sales channels such as Interactive Voice Response, Short Message Service and Video Lottery Terminal etc. These sales channels make use of various public platforms in the society which are deemed to be highly accessible. The lottery sales in China exceeded RMB100 billion in 2008 and continue to grow rapidly.

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The total revenue generated from the lottery business in the PRC is distributed in the following manners:

1. 50% of the revenue is distributed as prize to winners, 1% of which is allocated as coordination fee;
2. 35% of the revenue is distributed as community charity fund to the government, which is spited as 17.5% to the central and local government respectively; and
3. 15% of the revenue is distributed by the local lottery issuing centers as issuing cost from all sectors, including lottery sales agency fee and lottery sales system support and maintenance fee. The percentage of revenue distributed by local lottery issuing centres as lottery sales system support and maintenance fee to respective service providers is a commercial decision of the local lottery issuing centre. It may vary and be determined based on the negotiation between the local lottery issuing centres and relevant service providers after taken into account of various factors such as scope of services, technical maintenance services as well as sales operation services provided by relevant service providers.

The Target JV will charge the respective lottery issuing center a service fee based on the scope of services provided (provision of lottery sales system software) and such fee will be calculated based on a aforementioned percentage range of the income from sales of lottery by the respective lottery issuing center. The service fee represents the charges related to the provision of lottery sales system software for the aforementioned innovative sales channels, technical maintenance services as well as sales operation services by the Target JV to the welfare lottery issuing center and cooperative third party (if any) in the PRC.

The major competitors of the Target JV in the lottery sales industry are usually providers of traditional computerized lottery sales technology and engage in the provision of lottery terminal scratch ticket printing and operation of distribution points. They may have entered into the traditional computerized lottery sales sector in the early years and perform stable technical service with hotlines and terminals for those traditional computerized lottery sales channels in the PRC.

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Based on information available to the Directors, the following are the companies listed on the Stock Exchange whose major business activities include lottery-related business. A summary of the descriptions of their business, which is extracted from their respective annual reports for the year ended 31 December 2009 is set out below:

Company name	Stock code	Business description	Service areas <i>(Note)</i>
REXLot Holdings Limited (“REXLot”)	555	REXLot is principally engaged in lottery system and games development business in China, provision of systems and equipments for both Computer Ticket Game (CTG) and Scratch Cards products in China.	REXLot provides welfare lottery CTG business services to 16 provinces in China.
VODone Limited (“VODone”)	82	VODone is principally engaged in tele-media services ranging from news production, internet-video production and broadcasting, advertising, mobile gaming to mobile lottery, and is one of the first authorized service providers of mobile lottery betting service for mobile end users in China.	VODone has also further been authorized by lottery centres in major provinces in China, and has now established in-depth cooperation with 15 lottery centres in 12 provinces of China.
China LotSynergy Holdings Limited (“LotSynergy”)	8161	LotSynergy is principally engaged in the business of provision of lottery systems, game products, terminal equipment and related technologies and marketing services to the public welfare lottery market in China.	LotSynergy provides system and terminal equipments for CTG, Keno, and video lottery game business to over 12 provinces in China.

Note:

The name of the provinces/municipalities/cities were not disclosed in their respective annual reports.

To the best knowledge of the Directors, there are no other competitors currently providing innovative sales channel technical service in the areas covered by the cooperation agreements, which include Shenzhen municipal, Guangxi province, Chongqing municipal, Henan province and Tianjin municipal. Apart from that, the Target JV has a competitive advantage in the innovative sales channel technical service, which currently owns eight copyrights on computer software registered in the National Copyright Administration of the PRC (中國國家版權局), and nine software products registration certificates issued by the Shenzhen Science and Information Bureau (深圳市科技和信息局). It is crucial for the Target JV to utilize the intellectual property rights and copyrights related to the lottery sales system and software developed by it to provide the innovative lottery sales channel services to its customers, and to remain competitive in the market.

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The current challenges in the PRC lottery market are to deliver a system capable of linking across the provinces to a central system, in which the network and technologies need to be fast, stable, capable to accommodate multiple games and safeguard against counterfeit tickets, and develop a comprehensive sales and management system. The demand for technology increase as the breath of distribution increases. The challenge is accentuated by the weak infrastructure at many regions across China. The future growth opportunities in the PRC lottery market come from growth in the new product offerings. The various lottery product offerings, such as high frequency keno, scratch instant lottery, mobile platform and sports guessing game (SMG) and video lottery terminals (VLTs) are likely to be effective in stimulating the market, given their higher frequencies, increased simplicity and greater variety.

STRUCTURES AND REGULATIONS RELATING TO THE LOTTERY

In China, lottery business is sanctioned by the PRC Government and is for the purpose of raising public welfare funds for society and facilitating the development of social community initiatives. The lottery sector is strictly regulated by the PRC government which currently intends to tighten regulations against illegal gambling activities in the PRC. The Lottery Management Regulations (彩票管理條例) enacted by the State Council (State Council Decree No.554) in July 2009 was the first formal regulatory code on lottery industry, which is aimed to remove regulatory ambiguities. The Lottery Management Regulations governs all lottery businesses in China, which states that all enterprises are to be operated with sound legal protection. This paved the way for continued rapid growth in the industry and fostering the safe and healthy development of the China lottery market. Currently, the welfare lottery market is regulated by various authorities in the PRC and the Target JV is one of the welfare lottery service providers to provide development and maintenance of software systems relating to innovative sales channel services to welfare lottery issuing centres administered by the China Welfare Lottery Issuing Center (中國福利彩票發行管理中心) in the PRC.

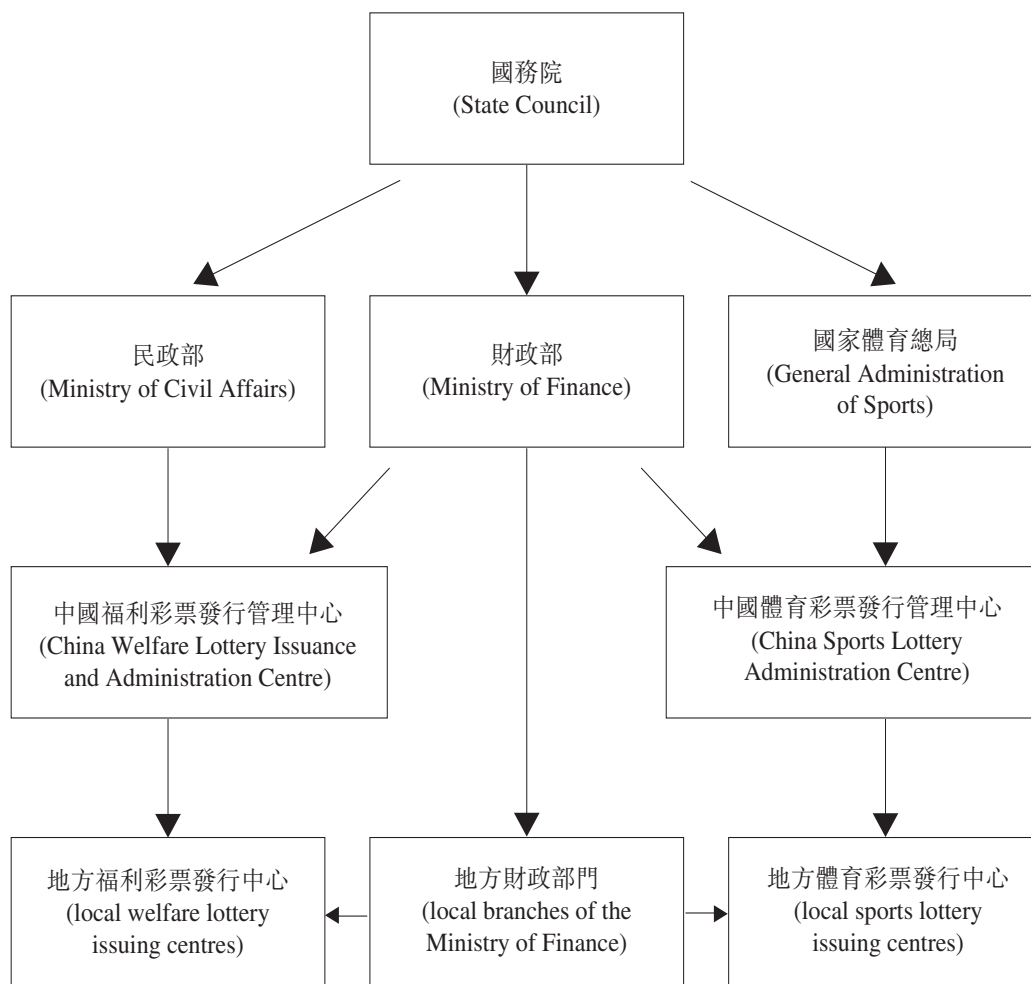
According to the Lottery Management Regulations, the State Council (國務院) authorized the issuance of welfare lottery (福利彩票) and sports lottery (體育彩票). No foreign lottery can be issued and sold within the PRC. The Ministry of Finance of the State Council (國務院財政部門) is responsible for the supervision and administrative of the lotteries nationwide. The Ministry of Civil Affairs (國務院民政部門) and the State General Administration of Sports of the State Council (國務院體育行政部門) are responsible for the administration of welfare and sports lotteries nationwide respectively.

The Ministry of Civil Affairs and State General Administration of Sports of the State Council establish a welfare lottery issuing organization (China Welfare Lottery Issuance and Administration Centre中國福利彩票發行管理中心) and a sports lottery issuing organization (China Sports Lottery Administration Centre國家體育總局體育彩票管理中心) to be responsible for the issuance and sales of welfare and sports lotteries nationwide respectively. The lottery issuing organizations may engage other service providers to support its sales of lottery. The vast lottery supporting services and equipment provision market is open to private enterprises.

The local branches of the Ministry of Finance in the provinces, autonomous cities and municipalities are responsible for the supervision and administration of lotteries within their areas of administration.

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The structure of China lottery market:



Source: The Lottery Management Regulations became effective from 1 July 2009

RISK FACTORS FOR THE ACQUISITION

Increased competitiveness in the lottery business in the PRC

It is expected that the competition in the lottery industry would be intensified in the near future. With the proliferation of different gaming methods, venues and other channels, the Target JV faces severe competition from other lottery service providers. A number of competitive factors could have a material effect on the results of operations in the current market, including but not limited to:

- Greater degree of operational efficiencies of competitors.
- Increased diversities of products and gaming channels offered by competitors.
- Immersive expansions of market share by competitors.

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The lottery industry is subject to the fluctuations in general economic conditions, lottery buyers' spending powers and sentiments

In general, the gross gaming revenue of lotteries is closely related to the lottery buyers' personal preferences, gambling patterns, level of disposable incomes and confidence in the economy as well as many other factors beyond the control of the Target JV. Although the PRC has shown signs of economic recovery, there is no assurance that it can regain the rapid growth exhibited in the past. In short, any change in lottery buyers' gambling behavior due to changes in economic conditions could materially affect the operating performance of the business.

Regulatory controls on welfare lottery business

The Lottery Management Regulations enacted by the State Council in July 2009 was the first formal regulatory code on lottery industry, which provides regulation assurance, technical assurance and management assurance to the lottery industry. It requires (i) lottery issuing organizations to provide risk control proposal when applying for new lottery categories; (ii) lottery issuing organizations to be equipped with advanced and secured lottery hardware, software system and technical service; and (iii) lottery issuing organizations to keep good control of data and fund for lottery sales system. The possible amendment or adoption of newly implemented or revised laws and regulations in the PRC in relation to the Target JV's business could significantly impair the growth of the Target JV or have a material adverse effect on its business operations and financial condition.

Change of regulatory policy requirements

The interpretation and application of existing PRC laws and regulations, the stated positions of the Ministry of Civil Affairs and the possible introduction of new laws or regulations have created uncertainties regarding the legality of existing and future businesses and the activities of the Target JV operating in the PRC welfare lottery industry. Currently, the Target JV is a developer of software systems and a technical service provider for sales of lottery, which does not require any specific licence or permit in the PRC other than its business licence. But there is no assurance that an operating permit, licence or approval would not be required for the Target JV to carry out its planned scope of business as a result of any change in or clarification of existing PRC laws or regulations (or the interpretation thereof) or an introduction of any new laws and regulations. However, the Directors consider that the likelihood and the impact of such risk to the Target JV is not material as the likelihood for the Target JV to obtain such permit, licence or approval is high, because the Target JV has obtained a Software Enterprise Verification Certificate (軟件企業認定証書) from the Shenzhen Science and Information Bureau, an Advanced Technology Enterprises Certificate (高新技術企業證書) and an ISO Certificate (國際標準認證證書) (ISO 9001:2000).

Business model and pricing control on cooperation agreements

Pursuant to the aforementioned cooperation agreements, the Target JV was authorized to utilize the lottery sales system and software developed by it to provide the innovative sales channel technologies and to provide sales channel operation services to the relevant welfare lottery issuing centers for a renewable term of three to eight years from the time of business operation starts in the

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aforsaid regions. Under the cooperation agreements, the Target JV will charge the respective lottery issuing center a service fee based on the scope of services provided (provision of lottery sales system software) and such fee will be calculated based on an agreed percentage of the income from sales of lottery by the respective lottery issuing center. There is no assurance that the Group could continue to renew the cooperation agreements with favourable terms and obtain favourable pricing as service fee and the possible regulatory control and pricing control on welfare lottery business has created uncertainties regarding the renewal and pricing of existing cooperation agreements with the relevant welfare lottery issuing centers.

Target JV relies on its cooperation agreements, and patent, copyrights and software products registration certificates

Target JV's cooperation agreements depend in part on its patent, copyrights, and other intellectual property rights. Target JV currently relies on a combination of patent, copyrights and software products registration certificates to protect its intellectual property rights. However, the protection of Target JV's intellectual properties may be compromised as a result of (i) expiration of the protection period of its registered copyrights and certificates, (ii) infringement by others of its intellectual property rights including counterfeiting its products and services, or (iii) refusal by relevant regulatory authorities to approve Target JV's pending copyrights and certificates applications. Any of these events or occurrences may have a material adverse effect on Target JV's operations. There is no assurance that the measures Target JV has put in place to protect Target JV's intellectual property rights will be sufficient. Failure to protect or safeguard its intellectual property rights may seriously harm its business, results of operations or financial condition.

Lack of exclusive right to carry out lottery related business under the cooperation agreements

Pursuant to the aforementioned cooperation agreements, the Target JV was authorized to utilize the lottery sales system and software developed by it to provide the innovative sales channel technologies and to provide sales channel operation services to the relevant welfare lottery issuing centers in Shenzhen municipal, Guangxi province, Chongqing municipal, Henan province and Tianjin municipal respectively. However, the Target JV has not obtained any exclusive right under these cooperation agreements to carry out lottery related business in the respective areas. Any other competitors' entrance into the new cooperation agreements with the relevant welfare lottery issuing centers to provide innovative sales channel technical service in the relevant areas may adversely affect the Target JV's business, results of operations or financial condition.

Target JV relies on proper operation and maintenance of its lottery sales system and software

Target JV's lottery sales system and software, together with its experience and knowledge in the industry, are critical to operate its business. Target JV's lottery sales system provides a database of information regarding sales records, fund levels and various other facets of the business to assist lottery sales management. Target JV cannot assure that its lottery sales system and software will operate properly or without interruption. Any malfunction to any part or all of Target JV's lottery sales system and software for a prolonged period may cause delays in operations or a breakdown of the overall system network. Target JV cannot assure that the level of security software currently maintained will be sufficient to protect the system from third party intrusions, viruses, lost or stolen data or similar situations.

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Target JV plans to continually put more efforts on research and development, upgrade and improve its lottery sales system and software as part of its growth and development strategy in the future. Target JV cannot assure that there will be no interruptions to its lottery sales system and software during the upgrades or that the new system and software will be able to integrate fully with the existing system. If its existing or future system and software do not function properly, Target JV's business and results of operations may be materially and adversely affected.

Sufficiency of management expertise

The Target JV's success is, to a significant extent, attributable to the creativity, business connection and solid experience in innovative lottery sales channel technical service and operation service of our management personnel, namely Mr. Leung Ngai Man, Mr. Ji Feng Qing, Mr. Wu Bin, and Ms. Wu Wei Hua. Each of these management personnel plays a significant role in the Target JV's day-to-day operations. Should any of these members of the Target JV's senior management leave the Target JV and we fail to identify suitable replacement, the Target JV's business may be adversely affected.

Sufficiency of funding

We depend on cash generated from our operations as well as access to external financing to operate and expand our business. Our future funding requirements will depend, to a large extent, on our working capital requirements. We need working capital for upgrading of software, purchase of hardware and distribution and marketing activities so as to keep pace with the competitive landscape in the PRC lottery industry. If we are unable to generate sufficient funding for our expansion plan, we may not be able to achieve our desired operating scale or expansion plans, which in turn may adversely impact our competitiveness and, therefore, our results of operations.

Independent Shareholders should note that the aforementioned risk factors are some of the risk factors, which we believe to be crucial, but are nevertheless exhaustive. The Directors have confirmed that they are aware of the mentioned risk factors and other risks involved in diversifying the Group's business into the provision of software systems for lottery sales industry and they will cautiously undertake the Group's planning and investment in the future.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Following Completion, there will not be any change in control or the principal business activities of the Company. In view of the rapid economic growth in the PRC economy in the recent decade, the PRC welfare lottery market exhibited a solid growth potential. Although the Target Group involves in the development and provision of operation software systems sector of the PRC welfare lottery market, it does not involve in the sales of the welfare lottery activities. The Directors are of the view that the Acquisition will further enhance the Group's participation in the welfare lottery market in the PRC. The Directors consider that the Acquisition would contribute positively to results of the Group in the near future. The Company is particularly optimistic about the prospects in relation to the development and provision of operation software systems sector of the welfare lottery market in the PRC.

LETTER FROM THE BOARD

Presently, the Company continues to maintain the current management of the Target Group to carry on the business. The Company also intends to appoint personnel/appropriate candidates with experience in the PRC lottery field to the management of the Company.

Financial effects of the Acquisition on the Group

Prior to the Acquisition, the Company does not hold any interest in the Target Group. Upon Completion, the Company will own the entire equity interest in Target BVI and Target HK and 51% of the registered capital of Target JV (partly paid up), and the financial results of the Target Group will be consolidated into the Group's financial statements.

Net asset

As stated in the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to this circular, the respective pro forma total assets and total liabilities of the Enlarged Group following the Acquisition would have been approximately HK\$3,082.8 million and approximately HK\$1,941.6 million as compared to approximately HK\$1,036.8 million and approximately HK\$1.9 million before the Acquisition.

As stated in Appendix III to this circular, the audited consolidated net assets of the Group as at 31 December 2009 was approximately HK\$1,035 million. Assuming Completion had taken place, the pro forma net assets of the Enlarged Group would have been approximately HK\$1,141.2 million.

Working capital

As stated in Appendix III to this circular, the audited consolidated net current assets of the Group as at 31 December 2009 was approximately HK\$10.3 million. Assuming Completion had taken place, the pro forma net current liabilities of the Enlarged Group would have been approximately HK\$37.8 million.

Earnings

As stated in Appendix III of this circular, the audited consolidated net loss for the year ended 31 December 2009 was approximately HK\$414.3 million. Assuming Completion had taken place, the pro forma net loss of the Enlarged Group would have been approximately HK\$429.5 million.

LETTER FROM THE BOARD

MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

1. Target BVI

Target BVI was incorporated in the BVI with limited liability on 4 January 2010 and the principal activity of Target BVI is investment holding.

For the period from 4 January 2010 (date of incorporation) to 28 February 2010

Operational review

Target BVI did not generate any revenue from its incorporation on 4 January 2010 (date of incorporation) to 28 February 2010. For the period from 4 January 2010 to 28 February 2010, the audited loss of Target BVI was HK\$10,600.

Liquidity and financial resources

As at 28 February 2010, the audited total assets and total liabilities of Target BVI was nil and HK\$10,592 respectively. It had a current liability of HK\$10,592 which comprised an amount due to a shareholder.

Gearing ratio

As at 28 February 2010, the gearing ratio (total borrowings to total assets) of the Target BVI was nil because the Target BVI did not have any borrowings.

Capital structure

As at 28 February 2010, the issued share capital of Target BVI was US\$1 (equivalent to approximately HK\$8), comprise of 1 issued and fully paid ordinary share of US\$1.

Significant investments, material acquisition and disposals

Target BVI did not have any significant investments, material acquisition or disposals for the period from 4 January 2010 to 28 February 2010.

Employee information

Since the Target BVI is an investment holding company, no employee information is available as at 28 February 2010.

Charge on group assets

As at 28 February 2010, no asset of Target BVI was pledged.

LETTER FROM THE BOARD

Segment review

The Directors consider that the business of the Target BVI is organised in one operating segment as investment holding. The total net segment loss is equivalent to total comprehensive loss for the period as shown in statement of comprehensive income and the total segment liabilities are equivalent to total liabilities as shown in the statement of financial position.

Exposure to fluctuation in exchange rates

The Directors consider that the Target BVI was not exposed to significant foreign currency risk due to limited foreign currency translations.

Contingent liabilities

As at 28 February 2010, Target BVI had no significant contingent liabilities.

2. Target HK

Target HK was incorporated in Hong Kong with limited liability on 8 June 2009.

For the period from 8 June 2009 (date of incorporation) to 28 February 2010

Operational review

Target HK did not generate any revenue since its incorporation on 8 June 2009 (date of incorporation) to 28 February 2010. For the period from 8 June 2009 to 31 December 2009 and the two months period ended 28 February 2010, the audited loss of Target HK was HK\$9,545 and HK\$217 respectively. The losses in these periods were mainly attributed from general and administrative expenses incurred in the respective periods.

Liquidity and financial resources

As at 31 December 2009 and 28 February 2010, Target HK had total assets of HK\$245 and HK\$28 respectively.

The current assets of Target HK as at 31 December 2009 and 28 February 2010 were HK\$245 and HK\$28 respectively, which comprised the bank balances. The current liabilities of Target HK as at 31 December 2009 and 28 February 2010 were HK\$9,789 and HK\$9,789 respectively, which comprised an amount due to a shareholder of HK\$9,789 and HK\$9,789 respectively as at 31 December 2009 and 28 February 2010.

Gearing ratio

As at 31 December 2009 and 28 February 2010, the gearing ratio (total borrowings to total assets) of Target HK was nil and nil because Target HK did not have any borrowings.

LETTER FROM THE BOARD

Capital structure

As at 31 December 2009 and 28 February 2010, the issued share capital of Target HK was HK\$1, comprise of 1 issued and fully paid ordinary share of HK\$1.

Significant investments, material acquisition and disposals

For the period from 8 June 2009 to 31 December 2009 and the two months period ended 28 February 2010, Target HK did not have any significant investments, material acquisition or disposals.

Employee information

Since Target HK is an investment holding company, no employee information is available as at 31 December 2009 and 28 February 2010.

Charge on group assets

As at 31 December 2009 and 28 February 2010, no asset of Target HK was pledged.

Segment review

The Directors consider that the business of the Target HK is organised in one operating segment as investment holding. The total net segment loss is equivalent to total comprehensive loss for the period as shown in statement of comprehensive income and the total segment assets and total segment liabilities are equivalent to total assets and total liabilities as shown in the statement of financial position.

Exposure to fluctuation in exchange rates

The Directors consider that the Target HK was not exposed to significant foreign currency risk due to limited foreign currency translations.

Contingent liabilities

As at 31 December 2009 and 28 February 2010, Target HK had no significant contingent liabilities.

3. Target JV

Target JV is an equity joint venture established in the PRC on 9 November 2006 and is principally engaged in development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services.

LETTER FROM THE BOARD

For the period from 1 January 2007 to 28 February 2010

Operational review

For the three years ended 31 December 2007, 2008, 2009 and the two months period ended 28 February 2010, the audited revenue of the Target JV was HK\$92,698 HK\$2,072,367, HK\$1,812,560 and HK\$12 respectively. The revenue of these periods were mainly generated from the provision and development of computer software, sale of equipment and provision of technical consultancy service. They were not related to the cooperative agreements entered into with the lottery issuing centers, as most of these cooperative agreements had not yet commenced. For the two months period ended 28 February 2010, the Target JV was in need of working capital to develop its computer software business before the new capital injection from the Vendor, which resulted in significant low revenue during that period. The respective business operation will commence pursuant to the cooperative agreements, the Target JV will put major efforts to develop the lottery system software and technical maintenance services for the aforementioned innovative sales channels. As a result, the revenue to be generated from the aforementioned cooperative agreements entered into with the lottery issuing centers is expected to increase year by year, while the revenue generated from the provision and development of computer software is expected to decrease in the future.

The gross profit margin for the three years ended 31 December 2007, 2008, 2009 and the two months period ended 28 February 2010 was approximately 100%, 14.8%, 54.7% and 41.7% respectively. The relative high gross profit margin in the year ended 31 December 2007 was due to the nil cost of sales as the Target JV was yet to commence business operation. The relative low gross profit margin in the year ended 31 December 2008 was attributable to the high cost of sales for initial start-up of the business. The gross profit margin maintained stably high for the year ended 31 December 2009 and the two months ended 28 February 2010.

During the three years ended 31 December 2007, 2008, 2009 and the two months period ended 28 February 2010, the key expenses of the Target JV was general and administrative expenses which accounted for approximately HK\$7 million, HK\$8.6 million, HK\$5.9 million and HK\$1 million respectively. The general and administrative expenses was incurred as a result of the daily operation and mainly comprised of salaries, rental, travel expenses and research and development expenses.

For the three years ended 31 December 2007, 2008 and 2009 and the two months period ended 28 February 2010, the audited loss of the Target JV was approximately HK\$6.9 million, HK\$8.3 million, HK\$4.8 million and HK\$973,461 respectively. The losses in these periods were mainly attributed from general and administrative expenses incurred in the respective periods.

LETTER FROM THE BOARD

Liquidity and financial resources

As at 31 December 2007, 31 December 2008, 31 December 2009 and 28 February 2010, the non-current assets of Target JV were approximately HK\$573,135, HK\$960,958, HK\$907,229 and HK\$864,355 respectively. The non-current assets in these periods were attributed by the property, plant and equipment.

As at 31 December 2007, 31 December 2008, 31 December 2009 and 28 February 2010, the current assets of Target JV were approximately HK\$1.4 million, HK\$1.4 million, HK\$1.1 million and HK\$1.8 million respectively, which comprised of (i) trade receivable of nil, HK\$889, HK\$450 and HK\$463 respectively; (ii) prepayments, deposits and other receivables of approximately HK\$0.4 million, HK\$1.1 million, HK\$1.1 million and HK\$1.7 million respectively; and (iii) cash and bank balances of HK\$966,355, HK\$315,401, HK\$30,269 and HK\$83,831 respectively as at 31 December 2007, 31 December 2008, 31 December 2009 and 28 February 2010. The prepayments, deposits and other receivables for the three years ended 31 December 2007, 2008, 2009 and the two months period ended 28 February 2010 mainly comprised of subcontracting payments to third party software developers, the deposits paid to lottery issuing centres and other relevant organizations.

As at 31 December 2007, 31 December 2008, 31 December 2009 and 28 February 2010, the current liabilities of Target JV were approximately HK\$3.3 million, HK\$8.8 million, HK\$13.3 million and HK\$14.9 million respectively, which comprised of (i) trade payables of nil, HK\$1,131, HK\$71,852 and HK\$71,931 respectively; (ii) amount due to a registered owner of approximately HK\$1.6 million, HK\$0.2 million, HK\$2.7 million and HK\$3.4 million respectively; (iii) amounts due to directors of approximately nil, HK\$6.2 million, HK\$6.5 million and HK\$6.6 million respectively; (iv) amounts due to related companies of approximately HK\$0.4 million, HK\$0.5 million, HK\$1.0 million and HK\$1.2 million respectively; and (v) other payables and accrued expenses of approximately HK\$1.4 million; HK\$1.9 million; HK\$3.1 million and HK\$3.7 million respectively as at 31 December 2007, 31 December 2008, 31 December 2009 and 28 February 2010.

Gearing ratio

In addition, as at 31 December 2007, 31 December 2008, 31 December 2009 and 28 February 2010, the gearing ratio (total borrowings to total assets) of Target JV was nil, nil, nil and nil because Target JV did not have any borrowings.

Capital structure

As at 31 December 2007, 31 December 2008, 31 December 2009 and 28 February 2010, Target JV had paid-up capital of approximately HK\$7.3 million, HK\$10.5 million, HK\$10.5 million and HK\$10.5 million respectively.

Significant investment, material acquisition and disposals

For each of the three years ended 31 December 2009 and the two-month period ended 28 February 2010, there were no significant investment, material acquisition and disposal of subsidiaries and affiliated companies.

LETTER FROM THE BOARD

Employee information

As at 31 December 2007, 31 December 2008, 31 December 2009 and 28 February 2010, Target JV employed a total number of 54, 51, 41 and 40 employees. The staff costs were approximately HK\$3.8 million, HK\$4.7 million, HK\$2.8 million and HK\$0.4 million for the three years ended 31 December 2007, 2008 and 2009 and the two-month period ended 28 February 2010 respectively.

Charge on group assets

As at 31 December 2007, 31 December 2008, 31 December 2009 and 28 February 2010, no asset of Target JV was pledged.

Contingent liabilities

As at 31 December 2007, 31 December 2008, 31 December 2009 and 28 February 2010, Target JV had no significant contingent liabilities.

IMPLICATION OF THE ACQUISITION UNDER THE GEM LISTING RULES

The Vendor is a connected person by virtue of him being a Director and a substantial Shareholder holding approximately 16.27% 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 Acquisition Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the EGM.

RE-ELECTION OF DIRECTOR

Mr. Wang Jun Sui (“**Mr. Wang**”) was appointed as an independent non-executive Director by the Board with effect from 30 June 2010. Pursuant to article 86(3) of the Company’s Articles of Association, Mr. Wang shall hold office only until the EGM and, being eligible, offers himself for re-election at the EGM.

Biographical information of Mr. Wang is set out below:

Mr. Wang, aged 54, has years of experience in the business market of the PRC. He was a deputy general manager of 光大對外貿易廣東公司 (Guangda External Trade Guangdong Company*).

Mr. Wang does not have any relationships with any Directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company as defined in GEM Listing Rules. He does not hold any other positions with the Company or its subsidiaries. As at the Latest Practicable Date, Mr. Wang does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

* an unofficial translation

LETTER FROM THE BOARD

Mr. Wang did not hold directorship in any other listed public companies or any other major appointments and qualifications in the last three years from the Latest Practicable Date.

As at the Latest Practicable Date, Mr. Wang did not have, and was not deemed to have, any interests in any Shares or underlying Shares within the meaning of the SFO.

Mr. Wang has entered into a service contract with the Company. The term of Mr. Wang in office is for one year subject to retirement and re-election in the general meetings of the Company in accordance with the Company's Articles of Association. The emoluments to Mr. Wang will be determined and subject to review by the Board and/or the remuneration committee of the Company from time to time with reference to his duties and responsibilities with the Company.

Save as disclosed above, there is no other information relating to Mr. Wang that is required to be disclosed pursuant to Rule 17.50(2)(h) to (v) of the GEM Listing Rules or there is no other matter that needs to be brought to the attention of the Shareholders or the Stock Exchange.

EGM

The EGM will be convened at which resolutions will be proposed to seek the approval of the Shareholders by way of poll for the transactions contemplated under the Acquisition Agreement and the re-election of Directors. In accordance with the GEM Listing Rules, the Vendor and his respective associates will abstain from voting on the resolutions to approve the Acquisition and transactions contemplated thereunder and any vote exercised by the Independent Shareholders at the EGM shall be taken by poll.

RECOMMENDATIONS

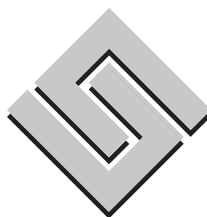
The Directors (excluding the Vendor who has abstained from voting at the relevant resolutions) consider that the terms of the Acquisition are fair and reasonable and the Acquisition is in the interest of the Company and the Independent Shareholders as a whole. Further, the Board considers the re-election of Directors is in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders and the Shareholders (where applicable) to vote in favour of the ordinary resolutions as set out in the notice of EGM to approve the Acquisition and the re-election of Director.

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 and on how to vote. Nuada Limited has been appointed as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders regarding the Acquisition. Their respective letters are contained in this circular.

Your attention is drawn to the letter from the Independent Board Committee set out on page 47 of this circular, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 48 to 59 of this circular and the information set out in the appendices of this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

30 July 2010

To the Independent Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION
AND
CONNECTED TRANSACTION**

We refer to the circular to the Shareholders dated 30 July 2010 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you in connection with the Acquisition, the terms of the Acquisition Agreement and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” in the Circular.

Having considered the Acquisition and the terms of the Acquisition Agreement and the advice of the Independent Financial Adviser in relation thereto as set out from pages 48 to 59 of the Circular, we consider that the terms of the Acquisition are fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions as set out in the notice of the EGM attached to this circular to approve the Acquisition, the Acquisition Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

Independent Board Committee

Cai Wei Lun

Independent

Non-executive Director

Leung Wai Cheung

Independent

Non-executive Director

Wang Jun Sui

Independent

Non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders received from the Independent Financial Adviser prepared for the purpose of inclusion in this circular.

Nuada Limited
Corporate Finance Advisory

17th Floor, BLINK, 111 Bonham Strand
Sheung Wan, Hong Kong
香港上環文咸東街111號BLINK17字樓

30 July 2010

*To the Independent Board Committee
and the Independent Shareholders*

China Metal Resources Holdings Limited
Unit 1006, 10th Floor
Tower One Lippo Centre
No. 89 Queensway
Hong Kong

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition Agreement, details of which are set out in a letter from the Board (the “Letter”) contained in a circular of the Company dated 30 July 2010 (the “Circular”) to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Company’s announcement dated 24 June 2010 stated that Easywin International Holdings Limited, a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement to acquire from Mr. Leung Ngai Man the Sale Share (being the entire issued share capital of the Target BVI) for a total consideration of HK\$2,112.5 million.

Pursuant to the terms of the Acquisition Agreement, the Consideration shall be settled in the following manner: (i) on the date of the Acquisition Agreement, an aggregate amount of HK\$67 million was paid by the Purchaser to the Vendor as the Deposit and (if the Acquisition is completed) part of the Consideration; (ii) HK\$48 million shall be satisfied by the Purchaser procuring the Company to allot and issue the Consideration Shares, credited as fully paid at the Issue Price, on Completion to the Vendor; (iii) HK\$1,200 million shall be satisfied by the Purchaser procuring the Company to issue the Promissory Note to the Vendor on Completion; and (iv) the remaining balance of the Consideration (being HK\$797.5 million) shall be satisfied by the Purchaser procuring the Company to issue the Convertible Bonds to the Vendor on Completion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Vendor is a connected person by virtue of him being a Director and a substantial Shareholder holding approximately 16.27% of the issued share capital of the Company as at the date of the Announcement. 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 Acquisition 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 will abstain from voting on the resolution to approve the Acquisition and any vote exercised by the Independent Shareholders at the EGM shall be taken by poll.

Mr. Cai Wei Lun, Dr. Leung Wai Cheung and Mr. Wang Jun Sui, being the independent non-executive Directors, have been appointed by the Board to form the Independent Board Committee to advise and make recommendation to the Independent Shareholders as to how to vote at the EGM on the relevant ordinary resolutions regarding the Acquisition Agreement.

Our role as the independent financial adviser is to give our independent opinion to the Independent Board Committee and Independent Shareholders as to whether the terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, opinion and representations contained or referred to in the Circular and the information, opinion and representations provided to us by the management of the Company and the Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the management of the Company and the Directors, for which they are solely and wholly responsible, were true, accurate and complete at the time when they were made and continue to be so at the date hereof.

Accordingly, we have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and representations contained in the Circular and provided to us by the Company and the Directors, or the reasonableness of the opinions expressed by the management of the Company and the Directors. The Directors collectively and individually accept full responsibility for the accuracy of the information in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading. Furthermore, we relied on the Company that it has provided us with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have relied on such information and opinions but have not, however, conducted any independent in-depth investigation into the business, financial conditions and affairs or the future prospects of the Group and the Target Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the terms of the Acquisition Agreement, we have considered the following principal factors and reasons.

1. Reasons and benefits of the Acquisition

a. Background of the Group

The Company is a company incorporated in Cayman Islands with limited liability. Its securities are listed on the GEM Board of the Stock Exchange. The principal business activity of the Company is investment holding. The Group is principally engaged in the sales of computer software and hardware as well as exploration of mining resources business in the PRC.

The table below tabulates the financial results of the Group for the two years ended 31 December 2009 as extracted from the Group's annual report for the financial year ended 31 December 2009 (the "Annual Report").

	For the year ended	
	31 December	
	2008	2009
	HK\$'000	HK\$'000
Turnover	1,266	2,057
(Loss) for the year	(50,245)	(414,270)
(Loss) per share – basic	(2.8) cents	(11.6) cents

As stated in the Annual Report, the turnover of the Group was approximately HK\$2.1 million for the financial year ended 31 December 2009, which represents approximately 62.5% increase to the corresponding figure of approximately HK\$1.3 million for the financial year ended 31 December 2008. As stated in the Annual Report, such increase of revenue was due to a significant rise in the revenue of the operating segment of trading of computer hardware and software.

The loss for the financial year ended 31 December 2009 was approximately HK\$414.3 million compared to a loss of approximately HK\$50.2 million in the financial year ended 31 December 2008. The loss per Share was HK2.8 cents and HK11.6 cents for the two years ended 31 December 2009 respectively. As stated in the Annual Report, the main reason for the increase in the loss attributable to owners of the Company was due to: (i) the impairment of goodwill of HK\$127,400,000; (ii) the impairment of supply contract of HK\$287,020,000; and (iii) the imputed interest expenses on convertible bonds of HK\$21,280,000.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the Letter, the Group has been seeking suitable investment opportunities from time to time to diversify its existing business portfolio and to broaden its source of income. The Directors believe that the Acquisition will provide an opportunity for the Group to gain access to the promising innovative sales channel services of lottery business and welfare lottery market in the PRC and broaden the income base of the Group, thereby enhancing the Group's financial position and profitability in the future.

b. Background information of the Target Group

The Target BVI is a company incorporated in the BVI and is wholly and beneficially owned by the Vendor. The Target BVI is principally engaged in investment holding. The sole asset of the Target BVI is the entire issued capital of the Target HK, which is an investment holding company and owns 51% of the registered and paid up capital of the Target JV. The current business scope of the Target JV includes development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services.

Since 2006, the Target JV has signed a number of cooperation agreements regarding innovative sales channel operation services with lottery issuing organizations (i.e. local lottery issuing centres), which includes, Shenzhen Welfare Lottery Issuing Center (深圳市福利彩票發行中心), Guangxi Welfare Lottery Issuing Center (廣西福利彩票發行中心), Chongqing Welfare Lottery Issuing Center (重慶市福利彩票發行中心), Henan Welfare Lottery Issuing Center (河南省福利彩票發行中心) and Tianjin Welfare Lottery Issuing Center (天津市福利彩票發行中心). The Target JV also entered into cooperative agreements or memoranda with various welfare lottery-issuing organizations and socialized public platform organizations (社會化公用平臺機構).

Pursuant to the cooperation agreements, the Target JV was authorized to utilize the lottery sales system and software developed by it to provide the innovative sales channel technologies in Shenzhen municipal, Guangxi province, Chongqing municipal, Henan province and Tianjin municipal respectively and to provide sales channel operation services in respect of DTV welfare lottery sales, mobile phone welfare lottery sales, commercial retail channel agent welfare lottery sales and self-service banking equipment welfare lottery sales to the relevant welfare lottery issuing centers for a renewable term of three to eight years from the time of business operation starts in the aforesaid regions.

Under the cooperation agreements, the Target JV will charge the respective lottery issuing center a service fee based on the scope of services provided (provision of lottery sales system software) and such fees will be calculated based on a fixed percentage of the income from sales of lottery by the respective lottery issuing center ranging from 2% to 9%. The service fee represent the charges related to the provision of lottery sales system software for the aforementioned innovative sales channels, technical maintenance services as well as sales operation services by the Target JV to the welfare lottery issuing center and cooperative third party (if any) in the PRC. The service fee in general will be paid monthly or quarterly by the respective welfare lottery issuing center to the Target JV and cooperative third party (if any) in the PRC.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As mentioned in the Letter that there are three companies listed on the Stock Exchange whose major business activities include lottery-related business. However, only one of them, i.e. China LotSynergy Holdings Limited, has disclosed the service fee in the circular dated 1 March 2006. The service fee disclosed was 2% which was less than the service fees of the Target JV ranging from 2% to 9%. Also, since the cooperation agreements were entered into with independent third parties, the Directors have advised that under their knowledge, the terms would be similar with those agreements entered into by the competitors. As such, we consider the service fee to be fair and reasonable.

c. Overview of lottery market in the PRC

In a research report from Citigroup Global Market Inc. in 2006, the lottery industry of the PRC commenced in 1987 and the total sales increased to more than US\$1 billion in 1998. At the end of 2005, the size of the PRC's lottery market was about US\$8.8 billion, ranking the seventh in the world. In 2006, the US was the world's largest lottery market and its lottery per capita spending was approximately US\$195. The other large lottery markets are those in Italy, Spain, Germany and France. The PRC had the lowest lottery per capita spending among the top lottery markets in the world, which was approximately US\$7. For lottery sales per capita, according to the statistics released by the world's authoritative publication for the lottery industry, La Fleurs's 2008 World Lottery Almanac, sales per capita in the PRC amounted to US\$9 in 2007, Hong Kong amounted to US\$674, while Singapore amounted to US\$880 and ranked first in the world. Compared with other countries, China's lottery sales per capita remains at a low level and is one with tremendous growth potential.

In 2009, according to the Ministry of Finance, the PRC, the PRC's Lottery Market has continued to record a strong growth with sales of approximately RMB132.4 billion increased by approximately 25% as compared to that of 2008. Welfare Lottery accounted for approximately RMB75.6 billion (about 57% of total lottery sales) while Sports Lottery accounted for approximately RMB56.9 billion (about 43% of total lottery sales).

The consumer spending and gross domestic products per capita in the PRC have been demonstrating an increasing trend in recent years. According to the statistics released by the Ministry of Finance of the PRC, the total revenue generated from the lottery business in the PRC was approximately RMB106 billion and RMB132 billion in 2008 and 2009 respectively, representing an increase of approximately 25%, among which, revenue generated by welfare lottery business has increased from approximately RMB60.40 billion in 2008 to RMB75.6 billion in 2009, representing an increase of approximately 25.2%. Such considerable growth corresponded with the growth of the PRC's gross domestic products of approximately 8.7% as quoted on National Bureau of Statistics of China (中國國家統計局) for the same period.

Based on (i) the performance of the Group in the previous two years; (ii) the development of the lottery market in the PRC; and (iii) the business development of the Target Group including the cooperation agreements entered into with several lottery issuing centers, we are of the view and concur with the view of the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Principal terms of the Acquisition Agreement

a. Basis of the Consideration

The Consideration is HK\$2,112.5 million. The Consideration was determined by the Vendor and the Purchaser on the basis of normal commercial terms and arm's length negotiations with reference to, among others, (i) the opportunity for the Group to gain access to the information technology services of lottery sales market in the PRC and to broaden the income base of the Group; (ii) the preliminary valuation of the Target JV performed by Norton, an independent valuer; and (iii) the further business and growth potential of the Target JV as more particularly described in the paragraphs headed "Information of the Target Group" and "Reasons for and benefits of the Acquisition" in the Letter.

Based on a preliminary report provided by Norton, the preliminary valuation for the entire equity interest of the Target JV as at 30 April 2010 was RMB4,280 million (equivalent to approximately HK\$4,863.6 million). As set out in the formal valuation report issued by Norton (the "Valuation Report") which is included in Appendix IV to the Circular, the valuation of the Target JV as at 30 July 2010 amounted to RMB4,504 million (equivalent to approximately HK\$5,118.2 million).

We have reviewed and discussed with Norton, the appraisal approaches and assumptions regarding the Valuation Report and are of view that they are reasonably prepared. Further details can be found in the section headed "Valuation Report" below. Compared to the fair value of 51% equity interest of the Target JV which is of approximately HK\$2,610.282 million, the Consideration represents a discount of approximately 19%.

We understand from the Company that the Board has noticed the estimate cost incurred by the Vendor for the Target Group which amounted to approximately HK\$36 million (including the capital contribution made and to be made by the Vendor (on behalf of Target HK) to the Target JV of RMB20.81 million (equivalent to approximately HK\$22.8 million) and a professional fee to technical consultants of HK\$13 million) and the Vendor of the Target Group is Mr. Leung, the Company's chairman and executive Director. We concur with the Directors' view that the investment in the Target JV by the Vendor is a separate transaction and such investment figure only forms one of the various criteria considered by the Board. As disclosed in the Letter, the Target JV, since 2006, has signed a number of cooperation agreements regarding innovative sales channel operation services with lottery issuing organizations (i.e. local lottery issuing centres), which includes, Shenzhen Welfare Lottery Issuing Center (深圳市福利彩票發行中心), Guangxi Welfare Lottery Issuing Center (廣西福利彩票發行中心), Chongqing Welfare Lottery Issuing Center (重慶市福利彩票發行中心), Henan Welfare Lottery Issuing Center (河南省福利彩票發行中心) and Tianjin Welfare Lottery Issuing Center (天津市福利彩票發行中心). The Board considers that the cooperation agreements entered into with relevant lottery issuing centres demonstrates the ability of the Target JV to develop its business and the continuous effort made by the management of the Target JV to foster and build up its business in the lottery related industry in the PRC. With the ability to expand its business, the Board believes the Target JV has good market potential, which was one of the assessing criteria when determining

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the Consideration. Besides, the Group has engaged Norton to conduct valuation on the updated value of the Target JV and conducted interview with Norton to understand the assumptions and basis of the preliminary valuation of the Target JV. In addition, the Group has appointed an independent organisation to conduct independent researches to further understand the trends and prospects of the lottery industry in the PRC. We also understand from the Company that it is agreed between the Vendor and the Group to determine the consideration with reference to the preliminary valuation performed by an independent valuer, as the Board and the Vendor consider it as the most independent available way to determine the fair value and, in turn, the Consideration, in particular, the Target JV has limited track record and independent valuation can better reflect the business potential of the Target JV and the market potential of the lottery industry in the PRC. The determination of the Consideration with reference to the independent valuation was agreed by the Vendor and the Group with a view to provide a fair basis to determine the value of the Target JV. Given the limited track record of the Target Group, we concur with the Directors' view that the determination of the Consideration with reference to the independent valuation is the most independent available way to determine the Consideration.

Even though the Consideration is higher than the investment cost of the Vendor for over approximately 100 times, as the valuation of the Target JV prepared by Norton, an independent valuer, is RMB4,504 million (equivalent to approximately HK\$5118.2 million), we consider the Consideration, representing a discount of approximately 19% to the fair value of 51% equity interest of the Target JV, to be fair and reasonable.

b. Payment method

Pursuant to the terms of the Acquisition Agreement, the Consideration of HK\$2,112.5 million shall be settled in the following manner:

- (i) on the date of the Acquisition Agreement, an aggregate amount of HK\$67 million was paid by the Purchaser to the Vendor as the Deposit and (if the Acquisition is completed) part of the Consideration;
- (ii) HK\$48 million shall be satisfied by the Purchaser procuring the Company to allot and issue the Consideration Shares, credited as fully paid at the Issue Price, on Completion to the Vendor;
- (iii) HK\$1,200 million shall be satisfied by the Purchaser procuring the Company to issue the Promissory Note to the Vendor on Completion; and
- (iv) the remaining balance of the Consideration (being HK\$797.5 million) shall be satisfied by the Purchaser procuring the Company to issue the Convertible Bonds to the Vendor on Completion.

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Promissory Note

Pursuant to the Acquisition Agreement, HK\$1,200 million of the Consideration shall be satisfied by the issuance of the Promissory Note. The Promissory Note is of a term of 5 years with interest of 0.15% per annum. The interest rate is lower than the best lending rate of 5% of HSBC and the one month HKD Interest Settlement Rates of 0.44643% as at 24 June 2010. As such, we consider that the terms are fair and reasonable. Besides the low interest rate, the issue and repayment of the Promissory Note would not dilute the shareholding interests of the existing Shareholders.

Consideration Shares and Convertible Bonds

Pursuant to the Acquisition Agreement, HK\$48 million of the Consideration shall be satisfied by way of allotment and issue of the Consideration Shares at HK\$0.24 per new Share credited as fully paid and HK\$797.5 million of the Consideration shall be satisfied by way of the issue of Convertible Bonds with a conversion price of HK\$0.24 per Conversion Share. The Convertible Bonds have a term of five years and carry no interest.

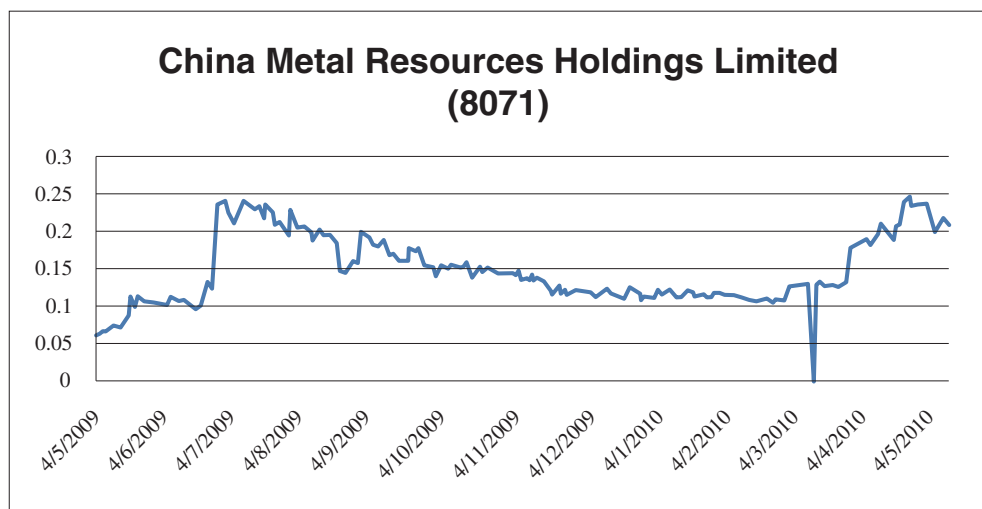
According to the Directors, the issue of the Consideration Shares and the Convertible Bonds are the most cost efficient and beneficial way to financing part of the Consideration as they save the costs of borrowing and eliminate the burden of the Company arising through the usage of cash since the cash and bank balance of the Group as at 31 December 2009 was HK\$11.4 million. We concur with the Directors' view in this regard as we consider the equity financing should incur lower cost than the debt financing in view of interest. Amongst the other equity financing methods, the issue of the Consideration Shares and Convertible Bonds directly to the Vendor should be relatively time-saving as other financing methods may subject to a lengthy negotiation process for the underwriting and due diligence practice or the time going through the fund raising process. Besides, since the Issue Price and the Conversion Price is above the market price of the Shares, there would impose difficulty for searching for underwriters or placing agent. Therefore, we concur with the Directors' view that the issue of the Consideration Shares and the Convertible Bonds as part of the Consideration is a cost efficient and beneficial method to financing the Acquisition.

The Issue Price and the Conversion Price

In order to assess the fairness of the Issue Price and the Conversion Price, we compare the Issue Price and the Conversion Price with the market price of the Shares.

We have reviewed the movements in the trading price of the Shares during the period from 4 May 2009 to 13 May 2010 (the "Review Period"). The closing prices of the Shares during the Review Period are set out below:

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Note: Trading of the Shares was suspended on 15 March 2010.

During the Review Period, the lowest closing price was HK\$0.061 per Share (recorded on both 4 and 5 May 2009), the highest closing price was HK\$0.246 per Share (recorded on 26 April 2010) and the average closing Share price of the Review Period was approximately HK\$0.149. As such, the issue price of the Consideration Shares represents (i) a premium of approximately 293.4% to the aforesaid lowest closing price; (ii) a premium of approximately 61.1% to the average closing price; and (iii) a discount of approximately 2.4% to the aforesaid highest closing price. Besides, out of the 256 days during the Review Period which the Shares were being traded, the closing Share price of only one day was higher than the Issue Price and the Conversion Price.

We are of the view that the Issue Price and the Conversion Price are justifiable as they represent:

- (i) a premium of approximately 14.8% over the closing price of HK\$0.209 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 14.1% over the average of the closing prices of HK\$0.2104 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day; and
- (iii) a premium of approximately 9.8% over the average of the closing prices of HK\$0.2185 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day.

Based on the fact that (i) the interest rate of the Promissory Note is only 0.15% per annum which is lower than the best landing rate of HSBC and the one month HKD Interest Settlement Rates; (ii) the Promissory Note would not dilute the shareholding interests of the existing Shareholders; and (iii) both the Issue Price and Conversion Price are above the closing market price of the Shares on the Last Trading Day, we are of the view that the payment term of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Valuation Report

In assessing the fairness and reasonableness of the valuation, we have also studied the general appraisal approaches, appraisal approach for the business enterprise and appraisal assumptions underlying the Valuation Report.

(a) General appraisal approaches

It is stated in the Valuation Report that Norton had considered three generally accepted valuation approaches, i.e. the Market-Based Approach, the Asset-Based Approach and the Income-Based approach and considered to use the Income-Based Approach.

(b) Appraisal approach for the business enterprise and assumptions

We have discussed with Norton regarding the appraisal approach of the valuation and the underlying assumptions of the valuation as stated in the Valuation Report. After discussion with Norton, we understand that in the process of valuing a business subject, Norton has taken into consideration the business nature, specialty of its operation and the industry it is participating. Having considered the three general valuation methodologies, Norton believed that the Income-Based Approach would be appropriate and reasonable in the appraisal for the market value of the Target JV. In the valuation, the Market-Based Approach is not appropriate as there are insufficient relevant comparable transactions to form a reliable basis for its opinion of value. The Asset-Based Approach is not appropriate as it ignores the economic benefits of the business. We also understand that the aforesaid assumptions are normal practice and without any abnormal assumptions.

Having considered the above, we are of the view that the Valuation Report is well prepared and the valuation performed by Norton is fair.

4. Dilution to the shareholdings of the Independent Shareholders

The table below set out the shareholdings structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the issue of the Consideration Shares; and (iii) immediately after the issue of the Consideration Shares and the exercise of the Convertible Bonds (up to the conversion restriction of 29% and in full):

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Shareholders	As at the Latest Practicable Date		Immediately after the issue of the Consideration Shares		Immediately after the issue of the Consideration Shares and the exercise of the Convertible Bonds up to the conversion restriction of 29% (Note 2)		Immediately after the issue of the Consideration Shares and the exercise of the Convertible Bonds in full (Note 4)	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Mr. Leung and parties acting in concert with him Existing Shares (Note 1)	704,089,400	16.27	704,089,400	15.55	704,089,400	13.80	704,089,400	8.97
Consideration Shares to be issued	-	-	200,000,000	4.42	200,000,000	3.92	200,000,000	2.55
Shares to be issued after the exercise of the Convertible Bonds (Note 2)	-	-	-	-	575,758,481	11.28	3,322,916,666	42.33
Sub-total	704,089,400	16.27	904,089,400	19.97	1,479,847,881	29.00	4,227,006,066	53.85
Mr. Ng Kwok Chu, Winfield (Note 3)	472,500	0.01	472,500	0.01	472,500	0.01	472,500	0.01
Public Shareholders	3,622,603,347	83.72	3,622,603,347	80.02	3,622,603,347	70.99	3,622,603,347	46.14
Total	<u>4,327,165,247</u>	<u>100.00</u>	<u>4,527,165,247</u>	<u>100.00</u>	<u>5,102,923,728</u>	<u>100.00</u>	<u>7,850,081,913</u>	<u>100.00</u>

Notes:

- Mr. Leung is an executive Director. Out of 704,089,400 Shares held by Mr. Leung, 1,474,400 Shares are held by Speedy Well Investments Limited which is wholly and beneficially owned by Mr. Leung.
- Pursuant to the terms of the Convertible Bonds, the Bondholder and parties acting in concert with it cannot hold more than 29% of the issued share capital of the Company as a result of conversion of the Convertible Bonds.
- Mr. Ng Kwok Chu, Winfield is an executive Director.
- This column is shown for illustration purpose only and it will never occur as Mr. Leung and his concert parties cannot hold more than 29% of the issued share capital of the Company as a result of conversion of the Convertible Bonds.

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The above table illustrate that the shareholding interest of the public shareholders would reduce from approximately 83.72% as at the Latest Practicable Date to approximately 70.99% (assume the exercise of the Convertible Bonds up to the conversion restriction of 29%) and further to approximately 46.14% (assume the exercise of the Convertible Bonds in full).

Having considered the Acquisition would (i) provide an opportunity for the Group to enter into the lottery market in the PRC; and (ii) strengthen the revenue base of the Group, we consider that such dilution on the shareholding interests of the existing public Shareholders is fair and reasonable.

5. Financial effects of the Acquisition

Upon completion of the Acquisition, as stated in the paragraph headed “Pro forma consolidated statement of financial position of the Enlarged Group” in Appendix III to the Circular, the non-current assets of the Group would increase from approximately HK\$1,024.6 million to approximately HK\$3,103.8 million; while the equity attributable to equity holders of the Company would increase from approximately HK\$1,035.0 million to approximately HK\$1,141.2 million. Regarding the loss of the Group, upon completion of the Acquisition, there would be an increase from HK\$414.3 million to HK\$429.5 million.

RECOMMENDATION

Given that (i) the Target JV was in net loss position in the last three financial years; (ii) most of the cooperation agreements are yet to commence business operation; (iii) the Company is new to the lottery industry in the PRC; and (iv) the Company will be recognizing substantial amount of goodwill upon completion, we still consider the transaction to be fair and reasonable since (i) the opportunity for the Group to gain access to the information technology services of lottery sales market in the PRC and to broaden the income base of the Group; (ii) the continuous growth of the lottery market in the PRC given the low per capita spending; (iii) the increasing gross domestic products of more than 8% in the PRC; (iv) the Consideration represents a discount to the valuation of the Target JV performed by Norton; (v) the business and growth potential of the Target JV particularly the expected revenue to be generated by the Target JV under the signed cooperation agreements; and (vi) the Target JV has sufficient operating capital to continue and develop its business after the capital contribution by the Vendor (including the outstanding registered capital of RMB15.81 million to be contributed by the Vendor before Completion). Taking into account the factors and reasons as mentioned above, we are of the opinion that the terms of the Acquisition Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend, and advise the Independent Board Committee to recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Acquisition Agreement and the transaction contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
Nuada Limited
Kevin Chan
Director

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is the summary of the audited consolidated results of the Group for the years ended 31 December 2007, 2008, and 2009 and unaudited consolidated results of the Group for the three months period ended 31 March 2010 as extracted from the relevant published annual reports and quarterly report of the Company:

CONSOLIDATED INCOME STATEMENT/CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December			For the three months period ended 31 March	
	2009 (Audited) HK\$'000	2008 (Audited) HK\$'000	2007 (Audited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Revenue	2,057	1,266	2,609	540	41
Cost of sales	(1,867)	(980)	(1,811)	(490)	(56)
Gross profit	190	286	798	50	(15)
Other operating income	71	618	555	12	2
Selling and distribution expenses	-	(114)	(285)	-	-
Administrative expenses	(22,106)	(18,962)	(18,641)	(5,981)	(4,313)
Impairment of goodwill	(127,400)	-	-	-	-
Impairment of supply contract	(287,020)	-	-	-	-
Impairment loss of prepaid lease payment	-	(4,442)	-	-	-
Impairment loss of property, plant and equipment	-	(447)	-	-	-
Impairment loss of inventories	-	(65)	-	-	-
Other operating expenses	(969)	(596)	-	-	-
Finance costs	(21,280)	(26,523)	(1,581)	-	-
Loss before income tax	(458,514)	(50,245)	(19,154)	(5,919)	(4,326)
Income tax credit/(expense)	44,244	-	-	(5)	-
Loss for the period	(414,270)	(50,245)	(19,154)	(5,924)	(4,326)
Other comprehensive income					
Exchange differences on translating foreign operations	(4,722)	(38)	(18)	(170)	(426)
Other comprehensive loss for the period, net of tax	(4,722)	(38)	(18)	(170)	(426)
Total comprehensive loss for the period	(418,992)	(50,283)	(19,172)	(6,094)	(4,752)
Loss attributable to:					
Owners of the Company	(365,512)	(50,119)	(19,154)	(5,870)	(4,274)
Non-controlling interests	(48,758)	(126)	-	(54)	(52)
	(414,270)	(50,245)	(19,154)	(5,924)	(4,326)
Total comprehensive loss attributable to:					
Owners of the Company	(370,167)	(50,157)	(19,172)	(6,047)	(4,700)
Non-controlling interests	(48,825)	(126)	-	(47)	(52)
	(418,992)	(50,283)	(19,172)	(6,094)	(4,752)
Loss per share for loss attributable to owners of the Company					
- Basic and diluted	(11.6 HK cents)	(2.8 HK cents)	(2.0 HK cents)	(0.17 HK cents)	(0.15 HK cents)

The following is a summary of the audited consolidated assets and liabilities of the Group as at 31 December 2007, 2008 and 2009 as extracted from the relevant published annual reports of the Company:

CONSOLIDATED BALANCE SHEET/CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	For the year ended 31 December		
	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	277	392	3,576
Prepaid lease payment	–	–	16,189
Goodwill	1,002,198	1,134,000	–
Other intangible assets	22,158	308,385	–
	<u>1,024,633</u>	<u>1,442,777</u>	<u>19,765</u>
Current assets			
Inventories	–	–	65
Trade receivables	41	114	132
Prepayments, deposits and other receivables	539	6,954	178
Pledged deposit	209	206	200
Cash and bank balances	11,422	889	73,843
	<u>12,211</u>	<u>8,163</u>	<u>74,418</u>
Property classified as held for sale	–	12,597	–
	<u>12,211</u>	<u>20,760</u>	<u>74,418</u>
Current liabilities			
Bank overdrafts	–	–	380
Other payables and accrued expenses	1,851	4,313	603
Current tax liabilities	11	–	–
Loans from a former shareholder	–	–	3,275
	<u>1,862</u>	<u>4,313</u>	<u>4,258</u>
Net current assets	<u>10,349</u>	<u>16,447</u>	<u>70,160</u>
Total assets less current liabilities	<u>1,034,982</u>	<u>1,459,224</u>	<u>89,925</u>
Non-current liabilities			
Due to minority shareholders of subsidiaries	–	–	502
Convertible bonds	–	319,150	–
Deferred tax liabilities	–	44,257	–
	<u>–</u>	<u>363,407</u>	<u>502</u>
Net assets	<u><u>1,034,982</u></u>	<u><u>1,095,817</u></u>	<u><u>89,423</u></u>
Capital and reserves			
Share capital	3,626	2,797	1,181
Reserves	1,029,513	1,042,352	88,242
Equity attributable to owners of the Company	1,033,139	1,045,149	89,423
Non-controlling interests	1,843	50,668	–
Total equity	<u><u>1,034,982</u></u>	<u><u>1,095,817</u></u>	<u><u>89,423</u></u>

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

The following is the audited financial statements of the Group for the year ended 31 December 2009 together with comparative figures and relevant notes as extracted from the annual report of the Company for the year ended 31 December 2009 (“2009 Annual Report”). The page reference in this report are the same as those in the 2009 Annual Report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Revenue	6	2,057	1,266
Cost of sales		<u>(1,867)</u>	<u>(980)</u>
Gross profit		190	286
Other operating income	7	71	618
Selling and distribution expenses		–	(114)
Administrative expenses		(22,106)	(18,962)
Impairment of goodwill		(127,400)	–
Impairment of supply contract		(287,020)	–
Impairment loss of prepaid lease payment		–	(4,442)
Impairment loss of property, plant and equipment		–	(447)
Impairment loss of inventories		–	(65)
Other operating expenses		(969)	(596)
Finance costs	8	<u>(21,280)</u>	<u>(26,523)</u>
Loss before income tax	9	(458,514)	(50,245)
Income tax credit	10	<u>44,244</u>	<u>–</u>
Loss for the year		<u>(414,270)</u>	<u>(50,245)</u>
Other comprehensive income			
Exchange differences on translating foreign operations		<u>(4,722)</u>	<u>(38)</u>
Other comprehensive income for the year, net of tax		<u>(4,722)</u>	<u>(38)</u>
Total comprehensive income for the year		<u><u>(418,992)</u></u>	<u><u>(50,283)</u></u>

		2009	2008
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss attributable to:			
Owners of the Company	<i>11</i>	(365,512)	(50,119)
Non-controlling interests		<u>(48,758)</u>	<u>(126)</u>
		<u><u>(414,270)</u></u>	<u><u>(50,245)</u></u>
Total comprehensive income attributable to:			
Owners of the Company		(370,167)	(50,157)
Non-controlling interests		<u>(48,825)</u>	<u>(126)</u>
		<u><u>(418,992)</u></u>	<u><u>(50,283)</u></u>
Loss per share for loss attributable to owners of the Company			
– Basic and diluted	<i>12</i>	<u><u>(11.6 HK cents)</u></u>	<u><u>(2.8 HK cents)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

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

STATEMENT OF FINANCIAL POSITION

At 31 December 2009

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

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

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS*For the year ended 31 December 2009*

	2009	2008
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from operating activities		
Loss before income tax	(458,514)	(50,245)
Adjustments for:		
Amortisation of prepaid lease payment	–	299
Depreciation of property, plant and equipment	126	456
Expense recognised in respect of equity-settled share-based payments	9,672	5,068
Gain on disposal of property classified as held for sale	(18)	–
Gain on disposal of a subsidiary	(45)	–
Loss on disposal of property, plant and equipment	–	364
Loss on redemption of convertible bonds	969	–
Impairment of goodwill	127,400	–
Impairment of supply contract	287,020	–
Impairment loss of prepaid lease payment	–	4,442
Impairment loss of property, plant and equipment	–	447
Impairment loss of inventories	–	65
Write back of amount due to minority shareholders of subsidiaries	–	(550)
Written off on property, plant and equipment	–	232
Interest income	(8)	(68)
Interest expense	21,280	26,523
	<u> </u>	<u> </u>
Movements in working capital	(12,118)	(12,967)
Decrease in trade receivables	73	18
Decrease/(Increase) in prepayments, deposits and other receivables	6,415	(2,227)
(Decrease)/Increase in other payables and accrued expenses	(2,462)	2,764
	<u> </u>	<u> </u>
Cash used in operations	(8,092)	(12,412)
Interest paid	–	(110)
Income tax paid	(2)	–
	<u> </u>	<u> </u>
Net cash used in operating activities	<u> </u>	<u> </u>

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Cash flows from investing activities			
Additional interest in a subsidiary acquired by the Group		–	(49)
Payments for intangible assets		(1,086)	(215)
Proceeds from disposal of property, plant and equipment		–	900
Proceeds from disposal of property classified as held for sale		12,615	–
Payments for property, plant and equipment		(1,417)	(125)
Net cash outflow on acquisition of subsidiaries	28	–	(86,666)
Net cash inflow on disposal of a subsidiary	29	1,451	–
Interest received		8	68
Increase in pledged deposit		(3)	(6)
Net cash generated by/(used in) investing activities		<u>11,568</u>	<u>(86,093)</u>
Cash flows from financing activities			
Proceeds from issue of shares		12,086	29,721
Payment for redemption of convertible bonds		(5,000)	–
Repurchase of shares		–	(490)
Repayment of loans to a shareholder		–	(3,200)
Net cash generated by financing activities		<u>7,086</u>	<u>26,031</u>
Net increase/(decrease) in cash and cash equivalents		10,560	(72,584)
Cash and cash equivalents at the beginning of year		889	73,463
Effect of foreign exchange rate changes, net		(27)	10
Cash and cash equivalents at the end of year		<u><u>11,422</u></u>	<u><u>889</u></u>
Analysis of the balances of cash and cash equivalents			
	22		
Cash and bank balances		11,422	837
Short-term time deposits		–	52
		<u><u>11,422</u></u>	<u><u>889</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. GENERAL INFORMATION

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

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

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

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

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

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

New and revised HKFRSs affecting presentation and disclosure only***HKAS 1 (revised in 2007) Presentation of Financial Statements***

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

HKFRS 8 Operating Segments

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

Improving Disclosure about Financial Instruments***(Amendments to HKFRS 7 Financial Instruments: Disclosures)***

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

Standards and interpretations in issue but not yet effective

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

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

¹ Effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

³ Effective for annual periods beginning on or after 1 January 2010

⁴ Effective for annual periods beginning on or after 1 February 2010

⁵ Effective for annual periods beginning on or after 1 July 2010

⁶ Effective for annual periods beginning on or after 1 January 2011

⁷ Effective for annual periods beginning on or after 1 January 2013

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

Subsidiaries

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

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

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

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

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

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

Goodwill

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

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

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

Recognition of revenue

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

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

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

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

Leasing

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

The Group as lessee

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

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

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

Foreign currencies

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

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

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

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

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

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

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

Borrowing costs

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

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

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

Retirement benefit costs and short term employee benefits

Retirement benefit costs

Retirement benefits to employees are provided through defined contribution plans.

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

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

Short term employee benefits

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

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

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

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

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

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

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

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

Taxation

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

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

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

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

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

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

Prepaid lease payment and property, plant and equipment

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

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

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

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

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

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

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

Intangible assets (other than goodwill)*Intangible assets acquired separately*

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

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

Intangible assets acquired in a business combination

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

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

Exploration and evaluation assets

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

Impairment of tangible and intangible assets other than goodwill

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

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

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

Cash and cash equivalents

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

Provisions

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

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

Financial instruments

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

Financial assets

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

Effective interest method

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

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

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

Loans and receivables

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

Financial liabilities and equity

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

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

Effective interest method

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

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

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

Other financial liabilities

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

Convertible bonds that contain an equity component

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

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

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

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

Equity instruments

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

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

Derecognition

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies*Impairment of intangible assets – “exploration and evaluation assets”*

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

Impairment of intangible assets – “supply contract”

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

Goodwill

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

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

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

Key sources of estimation uncertainty*Valuation of share options granted*

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

Estimated impairment of goodwill

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

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

5. SEGMENT INFORMATION

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

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

- (a) Staff secondment business – this segment represents the staff secondment to generate income from the staff performing system integration for the external party;
- (b) Trading of computer hardware and software business – this segment represents the trading of computer hardware and software in the People's Republic of China ("PRC"); and
- (c) Exploration of mining business – this segment represents the exploration of gold mines in the PRC.

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

Segment revenue and results

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

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

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

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

Segment assets and liabilities

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

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

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

Other segment information

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

Geographical information

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

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

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

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

Information about major customers

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

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

6. REVENUE

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Staff secondment income	164	620
Trading of computer hardware and software income	<u>1,893</u>	<u>646</u>
	<u><u>2,057</u></u>	<u><u>1,266</u></u>

7. OTHER OPERATING INCOME

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

8. FINANCE COSTS

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

9. LOSS BEFORE INCOME TAX

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

Notes:

- (i) Cost of services provided included HK\$144,000 (2008: HK\$530,000) relating to employee benefit expense. This amount is included in both “Cost of services provided” and “Employee benefit expense” disclosed above.
- (ii) Employee benefit expense (excluding directors' emoluments) included equity-settled share option expense of HK\$1,184,000 (2008: HK\$2,957,000) disclosed above.
- (iii) The loss on redemption of convertible bonds, loss on disposal of property, plant and equipment and written off on property, plant and equipment are included in other operating expenses.

10. INCOME TAX CREDIT

Income tax recognised in profit or loss

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

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

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

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

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

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

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

11. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

12. LOSS PER SHARE

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

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

13. EMPLOYEE BENEFIT EXPENSE (EXCLUDING DIRECTORS' EMOLUMENTS)

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

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENT

Directors' emoluments

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

	Fees HK\$'000	Salaries and other benefits HK\$'000	Contributions to retirement benefits scheme HK\$'000	Equity-settled share option expenses HK\$'000	Total HK\$'000
<i>Year ended 31 December</i>					
<i>2009</i>					
Executive directors					
Leung Ngai Man	–	2,600	12	–	2,612
Ng Kwok Chu, Winfield	–	520	12	–	532
Wu Wei Hua	–	724	12	–	736
Independent non-executive directors					
Leung Wai Cheung	60	–	–	–	60
Gao Shikui (note (i))	–	–	–	–	–
Cai Wei Lun (note (ii))	–	–	–	–	–
Chan Sing Fai (note (v))	–	–	–	–	–
Liu Jia Qing (note (vi))	–	–	–	–	–
	<u>60</u>	<u>3,844</u>	<u>36</u>	<u>–</u>	<u>3,940</u>

	Fees <i>HK\$'000</i>	Salaries and other benefits <i>HK\$'000</i>	Contributions to retirement benefits scheme <i>HK\$'000</i>	Equity-settled share option expenses <i>HK\$'000</i>	Total <i>HK\$'000</i>
<i>Year ended 31 December</i>					
<i>2008</i>					
Executive directors					
Leung Ngai Man	–	1,517	7	–	1,524
Ng Kwok Chu, Winfield	–	520	12	994	1,526
Wu Wei Hua	–	546	11	994	1,551
Choi Koon Ming (<i>note (iii)</i>)	–	–	–	–	–
Chow Yeung Tuen, Richard (<i>note (iv)</i>)	–	47	4	–	51
Independent non-executive directors					
Leung Wai Cheung	73	–	–	–	73
Chan Sing Fai (<i>note (v)</i>)	–	–	–	–	–
Liu Jia Qing (<i>note (vi)</i>)	–	–	–	123	123
	<u>73</u>	<u>2,630</u>	<u>34</u>	<u>2,111</u>	<u>4,848</u>

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

Notes:

- (i) Appointed on 4 May 2009
- (ii) Appointed on 11 August 2009
- (iii) Retired on 31 March 2008
- (iv) Resigned on 15 February 2008
- (v) Retired on 9 April 2009
- (vi) Resigned on 12 May 2009

Five highest paid individuals

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Basic salaries, allowances and other benefits in kind	2,024	1,978
Contributions to retirement benefits scheme	<u>22</u>	<u>12</u>
	<u><u>2,046</u></u>	<u><u>1,990</u></u>

The emoluments fell within the following band:

	Number of individuals	
	2009	2008
Emolument bands		
Nil – HK\$1,000,000	1	2
HK\$1,500,001 – HK\$2,000,000	<u>1</u>	<u>–</u>

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

15. PROPERTY, PLANT AND EQUIPMENT**Group**

	Building <i>HK\$'000</i>	Furniture, fixtures and fittings <i>HK\$'000</i>	Computer and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST					
Balance at 1 January 2008	1,630	37	436	1,889	3,992
Additions	–	94	31	–	125
Addition through acquisition of subsidiaries	–	–	234	169	403
Transferred to property classified as held for sale	(1,630)	–	–	–	(1,630)
Disposals	–	–	–	(1,580)	(1,580)
Written off	<u>–</u>	<u>–</u>	<u>(227)</u>	<u>(169)</u>	<u>(396)</u>
Balance at 31 December 2008	–	131	474	309	914
Additions	–	–	11	1,406	1,417
Derecognised on disposal of a subsidiary	<u>–</u>	<u>–</u>	<u>–</u>	<u>(1,406)</u>	<u>(1,406)</u>
Balance at 31 December 2009	<u>–</u>	<u>131</u>	<u>485</u>	<u>309</u>	<u>925</u>

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

	Building <i>HK\$'000</i>	Furniture, fixtures and fittings <i>HK\$'000</i>	Computer and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
Balance at 1 January 2008	(3)	(9)	(352)	(52)	(416)
Depreciation expense	(31)	(25)	(49)	(351)	(456)
Addition through acquisition of subsidiaries	–	–	(125)	(39)	(164)
Impairment loss recognised in profit or loss	(447)	–	–	–	(447)
Eliminated on transferred to property classified as held for sale	481	–	–	–	481
Eliminated on disposals	–	–	–	316	316
Written off	–	–	125	39	164
Balance at 31 December 2008	–	(34)	(401)	(87)	(522)
Depreciation expense	–	(23)	(41)	(62)	(126)
Balance at 31 December 2009	–	(57)	(442)	(149)	(648)
CARRYING AMOUNTS					
Balance at 31 December 2009	–	74	43	160	277
Balance at 31 December 2008	–	97	73	222	392

Company
Motor vehicle
HK\$'000
COST

Balance at 1 January 2008, 31 December 2008 and 31 December 2009	309
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ACCUMULATED DEPRECIATION AND IMPAIRMENT

Balance at 1 January 2008	(26)
Depreciation expense	(62)
Balance at 31 December 2008	(88)
Depreciation expense	(62)
Balance at 31 December 2009	(150)

CARRYING AMOUNTS

Balance at 31 December 2009	159
Balance at 31 December 2008	221

16. PREPAID LEASE PAYMENT

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

Group

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

17. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES**Company**

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Unlisted shares, at cost	1,285,296	1,285,296
Impairment loss recognised in the year	(250,000)	–
	<u>1,035,296</u>	<u>1,285,296</u>

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

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

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

Name of subsidiary	Place of incorporation/ registration/ operations	Particulars of issued and fully paid share capital/ registered capital	Percentage of issued capital held by the Company		Principal activity
			Directly	Indirectly	
E-silkroad.net Online Commerce Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	-	100%	Inactive
Business Essence Technology Limited	British Virgin Islands	1 ordinary share of US\$1	-	100%	Investment holding
E-silkroad.net Resources Limited	British Virgin Islands	1 ordinary share of US\$1	-	100%	Inactive
中山市光彩未來軟件有限公司 ("Zhongshan GF")	PRC*	HK\$8,000,000	-	95%	Provision of web page design services, application development and technical support services and trading of computer hardware and software
Leland Solutions Limited ("Leland")	Hong Kong	100,000 ordinary shares of HK\$1 each	-	100%	Provision of web page design services, website maintenance, staff secondment, system integration and information technology consultancy services
Richtop Holdings Limited ("Richtop")	Hong Kong	1 ordinary share of HK\$1	100%	-	Investment holding
Greatest High Holdings Limited	British Virgin Islands	1 ordinary share of US\$1	100%	-	Investment holding
Merit Billion Limited	Hong Kong	1 ordinary share of HK\$1	100%	-	Investment holding
China Nonferrous Metals Resources Investment Limited	British Virgin Islands	1 ordinary share of US\$1	-	100%	Investment holding
China Mining Group Investment Limited	Hong Kong	1 ordinary share of HK\$1	-	100%	Investment holding
Yunnan Western Mining Company Limited ("Yunnan Western")	PRC**	US\$3,185,405	-	80%	Exploration of mines
Easywin International Holdings Limited	British Virgin Islands	1 ordinary share of US\$1	100%	-	Investment holding
大連兆忠科技有限公司 ("Dalian Merit Billion")	PRC***	RMB500,000	-	100%	Trading of computer hardware and software
Glory Top Management Limited	Hong Kong	1 ordinary share of HK\$1	100%	-	Investment holding

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

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

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

18. GOODWILL

Group

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

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

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

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

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

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

- the Group is able to renew its exploration permit from time to time and obtain the mining operation permit.
- the exploration works and the subsequent mining operations will confirm the quality and quantity expected in the business plan of the mines operation.

- the expectation of future gold price.

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

19. OTHER INTANGIBLE ASSETS

Group

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

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

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

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

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

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

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

20. PROPERTY CLASSIFIED AS HELD FOR SALE

Group

	2009 <i>HK\$’000</i>	2008 <i>HK\$’000</i>
Transferred from property, plant and equipment	–	1,149
Transferred from prepaid lease payment	–	11,448
	<u>–</u>	<u>12,597</u>

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

21. TRADE RECEIVABLES**Group**

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Trade receivables	41	114

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
0-30 days	13	14
31-60 days	14	14
61-90 days	14	86
	41	114

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

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Neither past due nor impaired	27	114
Past due but not impaired	14	-
	41	114

22. CASH AND BANK BALANCES/PLEDGED DEPOSIT**Group**

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

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

Company

	2009 HK\$'000	2008 HK\$'000
Cash at banks and in hand	124	14
Short-term bank deposits	—	52
Cash and cash equivalents	<u>124</u>	<u>66</u>

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

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

23. SHARE CAPITAL

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

	Notes	Number of shares of HK\$0.0005 each		Number of shares of HK\$0.001 each		Share capital	
		2009 '000	2008 '000	2009 '000	2008 '000	2009 HK\$'000	2008 HK\$'000
Authorised:							
Ordinary shares at beginning of year		—	200,000,000	—	—	100,000	100,000
Share Consolidation	(i)	—	(200,000,000)	100,000,000	100,000,000	—	—
Ordinary shares at end of year		<u>—</u>	<u>—</u>	<u>100,000,000</u>	<u>100,000,000</u>	<u>100,000</u>	<u>100,000</u>

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

Notes:

(i) Share Consolidation

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

(ii) Issuance of new shares

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

(iii) Exercise of share options

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

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

(iv) Exercise of warrants

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

(v) Exercise of convertible bonds

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

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

(vi) Repurchase of shares

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

24. SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

25. RESERVES

Group

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

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

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

Company

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

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

Notes:

- (i) The share premium account of the Group and Company arises on shares issued at a premium. In accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.
- (ii) The capital redemption reserve of the Company represents the nominal value of the share capital of the Company repurchased and cancelled.
- (iii) On 3 July 2007, the Company entered into two subscription agreements with two investors, namely Mr. Li Ming Han and Mr. Pan Chik for the issue of warrants. The Company issued 358,000,000 non-listed warrants at the issue price of HK\$0.001 per warrant. The warrants will mature in three years from the date of issue. Each warrant entitles the holder thereof to subscribe for one new share at initial exercise price of HK\$2.25 per new share, payable in cash and subject to adjustment, at any time from 3 July 2007 to 2 July 2010. Consideration of HK\$358,000 was received in respect of warrants during the year 2007. After the share subdivision being effective on 23 August 2007, the exercise price per share was adjusted from HK\$2.25 to HK\$0.1125. Each warrant of the Company shall confer right to subscribe for 20 subdivided shares of HK\$0.0005 each. On 23 October 2007, the Company issued subscription shares at a discount of more than 10% to the then prevailing market price of the shares of the Company which constitutes an event that gave rise to adjustments to the subscription price of the warrants. The subscription price of the warrants was adjusted from HK\$0.1125 per share to HK\$0.11 per share. On 11 December 2007, the holders of the warrants passed a special resolution to amend the warrant instrument so that any future issue of securities of the Company at a discount of more than 10% to the then prevailing market price of the shares of the Company will no longer trigger any adjustment to the exercise price of the warrants.

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

26. OPERATING LEASE COMMITMENTS**Group**

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Within one year	709	21
After one year but within five years	124	39
	<u>833</u>	<u>60</u>

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

Company

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

27. CAPITAL COMMITMENTS

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Authorised and contracted for:		
Purchase of property, plant and equipment	365	–
Exploration work in the PRC (<i>note</i>)	2,268	2,240
	<u>2,633</u>	<u>2,240</u>

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

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

28. ACQUISITION OF SUBSIDIARIES AND BUSINESS COMBINATION

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

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

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

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

Notes:

- (i) The fair value of the shares issued was based on the published share price available at the date of acquisition. The fair value of the convertible bonds issued was based on a valuation report from LCH. The basis for determining the fair value of the convertible bonds is detailed in note 30.
- (ii) In the opinion of the directors, the goodwill arisen in the Mine Acquisition was mainly attributable to the consideration for the Mine Acquisition and had taken into account the followings:
- the continuous growth in the market price of gold in recent years and the future expectations of the gold price; and
 - the expected return from the gold ore resources in the exploration area.

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

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

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

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

29. DISPOSAL OF A SUBSIDIARY

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

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

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

30. CONVERTIBLE BONDS – GROUP AND COMPANY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

31. DEFERRED TAXATION

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

Group

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

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

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

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

32. RELATED PARTY TRANSACTIONS

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

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

Notes:

- (i) Sun Wah Net Investment Limited (“Sun Wah”) was one of the former substantial shareholders of the Company until 29 March 2007.
- (ii) The Group paid Sun Wah for secretarial services provided to the Group. The amount was mutually agreed between Sun Wah and the Group.

- (iii) Details of the Mine Acquisition is included in note 28.
- (iv) Details of the disposal of a subsidiary is included in note 29.
- (v) Details of the redemption is included in note 30.

(b) Compensation of key management personnel

Group

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Total remuneration of directors and other members of key management during the year	<u>3,940</u>	<u>6,325</u>

33. FINANCIAL INSTRUMENTS

33.1 Categories of financial instruments

Financial assets

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

Financial liabilities

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Financial liabilities at amortised cost:		
Other payables and accrued expenses	1,851	4,313
Convertible bonds	<u>–</u>	<u>319,150</u>

33.2 Financial risk management objectives and policies

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

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

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

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

33.2.1 Market risk

Foreign currency risk management

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

Interest rate risk management

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

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

Price risk

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

33.2.2 Credit risk management

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

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

33.2.3 Fair value of financial instruments

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

33.2.4 Liquidity risk management

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

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

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

34. CAPITAL RISK MANAGEMENT

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern;
- to provide an adequate return to shareholders; and
- to maintain an optimal capital structure to reduce cost of capital.

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

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

Gearing ratio

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

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

3. MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

(as extracted from the respective annual reports of the Company)

(i) Financial 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 last 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 Net Investment Limited ("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 Solutions Limited 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 warrant holders 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 warrant holder 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 warrant holder 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 acquisition of 49% equity interests in Leland Solutions Limited from Sun Rise. (*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.

On 4 January 2008, Greatest High Holdings Limited, a wholly-owned subsidiary of the Company and Mr. Leung Ngai Man entered into an agreement in relation to the acquisition of China Nonferrous Metals Resources Investment Limited (“**Target**”). The sole asset of the Target is the entire issued capital of China Mining Group Investment Limited, which in turns owns 80% of the registered and paid up capital of 雲南西部礦業有限公司, a Chinese foreign co-operative joint venture company (“**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族自治州潞西市) (“**Mine Acquisition**”). (*Details of the Mine Acquisition are set out in the announcement of the Company dated 23 January 2008*).

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).

(ii) Financial year ended 31 December 2008*Operational review*

During the year, the revenue of the Group was approximately HK\$1,266,000 which decreased by approximately HK\$1,343,000 as compared with that of last year (2007: HK\$ 2,609,000). The revenue was mainly derived from the provision of staff secondment and system integration and trading of hardware and software. Such decrease was due to a significant drop in the revenue of the business segment of trading of hardware and software.

The operating loss increased by approximately HK\$6,149,000 to approximately HK\$23,722,000 (2007: HK\$17,573,000). It is due to an increase in administrative expenses which was mainly caused by the impairment loss of property, plant and equipment of approximately HK\$447,000 and prepaid lease payment of approximately HK\$4,442,000 during the year.

The loss for the year of approximately HK\$50,119,000 (2007: HK\$19,154,000) attributable to equity holders of the Company increased by approximately HK\$30,965,000. The substantial increase is mainly due to the imputed interest expense on convertible bonds and details will be described below.

*Financial review**Liquidity and financial resources*

The Group financed its operations primarily with internally generated cash flow as well as the cash flow generated from the exercise of warrants 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 2008, the Group had cash and bank balances of approximately HK\$889,000 (2007: HK\$73,843,000). The decrease of cash and bank balances mainly due to the payment for the Mine Acquisition during the year.

As at 31 December 2008, the Group had total outstanding borrowings of approximately HK\$319,150,000 (2007: HK\$4,157,000) as stated in the consolidated balance sheet. The borrowings solely represents the convertible bonds of approximately HK\$319,500,000 (2007: Nil).

With regard to the acquisition of 49% interests in Leland Solutions Limited 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 Net Investment Limited (the former shareholder of the Company).

Capital structure

As at 31 December 2008, the Company's total number of issued shares was 2,796,500,247 ordinary shares of HK\$0.001 each (2007: 2,361,711,403 ordinary shares of HK\$0.0005 each).

On 5 and 29 January 2008, one of the warrant holders exercised the subscription rights attaching to the warrants to subscribe for a total of 40,909,090 shares of HK\$0.0005 each at an aggregate subscription price of HK\$4,500,000. On 11 March 2008, the aforesaid warrant holder exercised the subscription rights attaching to the warrants to subscribe for 20,454,545 shares of HK\$0.0005 each at an aggregate subscription price of HK\$2,250,000. On 19 May and 12 August 2008, the aforesaid warrant holder further exercised the subscription rights attaching to the warrants to subscribe for a total of 102,272,729 shares of HK\$0.0005 each at an aggregate subscription price of HK\$11,250,000.

On 14, 19 and 23 May 2008, another warrant holder exercised the subscription rights attaching to the warrants to subscribe for a total of 102,272,726 shares of HK\$0.0005 each at an aggregate subscription price of HK\$11,250,000.

Other changes in the share capital of the Company during the year are set out in note 26 to the financial statements.

Investment, material acquisition and disposal of subsidiaries and affiliated companies

On 4 January 2008, Greatest High Holdings Limited, a wholly-owned subsidiary of the Company and Mr. Leung Ngai Man (“**Mr. Leung**”) entered into an agreement in relation to the acquisition of China Nonferrous Metals Resources Investment Limited (“**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 Yunnan Xibu Mining Company Limited, (雲南西部礦業有限公司) a Chinese foreign co-operative joint venture company (“**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族自治州潞西市) (“**Mine Acquisition**”). This Mine Acquisition was completed on 26 August 2008 and details are set out in the announcement of the Company dated 26 August 2008.

On 16 December 2008 and 8 January 2009, Richtop Holdings Limited, a wholly-owned subsidiary of the Company, entered into each of the preliminary provisional sale and purchase agreement and the formal sale and purchase agreement respectively, in relation to a disposal of a property located in Hong Kong at a selling price of HK\$12,775,000 (“**Office Disposal**”). Completion of the Office Disposal took place on 27 February 2009. The Board considers that due to the recent global economic environment and the volatility of the property market, it is appropriate to dispose of the property in order to provide additional working capital to the Group. The net proceeds from the Office Disposal will be used for general working capital of the Group. (Details of the Office Disposal are set out in the announcement of the Company dated 18 December 2008 and the circular of the Company dated 8 January 2009).

On 12 January 2009, 雲南省核工業209地質大隊 and the CJV, an indirect non wholly-owned subsidiary of the Company, entered into an agreement pursuant to which the CJV has conditionally agreed to pay up the additional amount of the registered capital of 潞西市核工業209芒市金礦 (“**Ore Supplier**”), i.e. RMB4,732,000 (equivalent to approximately HK\$5,347,160) (“**Investment**”). Upon completion, the Ore Supplier will become a non wholly-owned subsidiary of the CJV and an indirect non wholly-owned subsidiary of the Company and the financial results of the Ore Supplier will be consolidated into the financial statements of the Company. Since the gold mining site owned by the Ore Supplier is located adjacent to the exploration area owned by the CJV, the Company believes that synergy can be achieved with the business of the CJV after completion of the Investment. Details of this investment are set out in the announcement of the Company dated 14 January 2009.

Segment comments

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

- i) Staff secondment and system integration segment: its revenues increased from approximately HK\$316,000 to approximately HK\$620,000 which represents an increase of approximately 96.2% as compared with that of last year.
- ii) Trading of hardware and software segment: this business segment is conducted in the PRC. It contributes approximately 51.0% of the total revenue of the Group and the profit margin is about 30.7%.

The Group will continue to develop its staff secondment service and system integration, trading of hardware and software and also to seeking to invest in the natural resources sector, which the Directors are of the 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 2008, the Group employed a total number of 26 (2007:16) employees. The staff costs, including Directors' remuneration and share-based payment, were approximately HK\$10,379,000 (2007: HK\$14,238,000).

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 2008, a fixed deposit of approximately HK\$206,000 was pledged for obtaining the corporate card services (2007: HK\$200,000).

Future plans for material investments or capital assets

Other than the Office Disposal and the Investment, there was no specific plan for material investments and acquisition of material capital assets as at 31 December 2008. However, the Group will continue to seek new business development opportunities.

Gearing ratio

As at 31 December 2008, the gearing ratio of the Group was approximately 0.291 (2007: 0.046), based on the total borrowings of approximately HK\$319,150,000 (2007: HK\$4,157,000) and total equity of approximately HK\$1,095,817,000 (2007: HK\$89,423,000).

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 2008, the Group had no significant contingent liabilities (2007: Nil)

(iii) Financial year ended 31 December 2009*Operational review*

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

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

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

*Financial review**Liquidity and financial resources*

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

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

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

Capital structure

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

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

Investments and disposal of property

1. On 12 September 2008, the Company entered into a conditional subscription agreement ("**Subscription Agreement**") with 北京中冶投資有限公司 (Beijing China Metallurgy Investment Limited*), pursuant to which the Company had agreed to allot and issue an aggregate of 90,000,000 Shares at the subscription price of HK\$0.50 per subscription share ("**Subscription**"). (Details of the Subscription are set out in the Company's announcement dated 17 September 2008). The Subscription Agreement was subsequently terminated due to the unfulfillment of the conditions of the Subscription within one year after execution of the Subscription Agreement.
2. On 12 January 2009, 雲南省核工業209地質大隊 (Geological Brigade 209 of the Nuclear Industry of Yunnan Province*) ("**PRC Partner**") and 雲南西部礦業有限公司 (Yunnan Xibu Mining Company Limited*) ("**CJV**"), an indirect non wholly-owned subsidiary of the Company, entered into an agreement ("**Agreement**"), pursuant to which the CJV has conditionally agreed to pay up the additional amount of the registered capital of 潞西市核工業209芒市金礦 (Luxi City Nuclear Industry 209 Mangshi Gold Mine*), i.e. RMB4,732,000 (equivalent to approximately HK\$5,347,160) ("**Investment**") (Details of the Investment are included in the Company's announcement dated 14 January 2009).

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

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

* *unofficial English translation*

Disposal of a subsidiary

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

Segment review

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

- i) Staff secondment segment: its revenue decreased from approximately HK\$620,000 to approximately HK\$164,000 which represents a decrease of approximately 73.5% as compared with that of last year.
- ii) Trading of computer hardware and software segment: this business segment is conducted in the PRC. It contributes approximately 92% of the total revenue of the Group.
- iii) Exploration of mines segment – this segment represents the exploration of gold mine in the PRC.

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

Employee information

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

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

Charge on group assets

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

Future plans for material investments or capital assets

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

Gearing ratio

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

Exposure to fluctuation in exchange rates

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

Contingent liabilities

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

4. STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business on 30 June 2010, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had no outstanding borrowings.

Contingent liabilities

As at 30 June 2010, the Enlarges Group had no significant contingent liabilities.

Capital and other commitments

As at 30 June 2010, the Enlarged Group had capital commitments for exploration of mining businesses amounting to approximately HK\$2,000,000, which would be mainly used for building of vertical shaft, trenching and basic analysis of ore samples.

Disclaimers

Save as disclosed above, as at the close of business on 30 June 2010, the Enlarged Group did not have any debt securities issued and outstanding or authorized or otherwise created but unissued, or term loans, other borrowings or indebtedness in the nature of borrowings including bank overdrafts, liabilities under acceptance (other than normal trade bills) or acceptance credits, hire purchase commitments, or mortgages, charges, guarantees or other material contingent liabilities.

5. WORKING CAPITAL

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

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



Chartered Accountants
Certified Public Accountants

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

30 July 2010

The Board of Directors
China Metal Resources Holdings Limited
Unit 1006, 10th Floor
Tower One Lippo Centre
89 Queensway
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Pearl Sharp Limited (the “Target BVI”) for the period from 4 January 2010 (date of incorporation) to 28 February 2010 (the “Relevant Period”), for inclusion in the circular dated 30 July 2010 (the “Circular”) issued by China Metal Resources Holdings Limited (the “Company”) in connection with the very substantial acquisition and connected transaction in respect of the proposed acquisition (the “Acquisition”) by Easywin International Holdings Limited (the “Purchaser”), a wholly-owned subsidiary of the Company, of the entire issued share capital of the Target BVI from Mr. Leung Ngai Man (the “Vendor”), a director and substantial shareholder of the Company.

The Target BVI was incorporated in the British Virgin Islands with limited liability on 4 January 2010 and acts as an investment holding company. The addresses of the registered office and principal place of business of the Target BVI are 2nd Floor, Abbott Building, Road Town, Tortola, British Virgin Islands and Unit A, 20/F., Seabright Plaza, No 9-23 Shell Street, North Point, Hong Kong. As at the date of this report, the Vendor is the legal and beneficial owner of the entire issued share capital of the Target BVI. The Target BVI has not carried on any business since the date of its incorporation, save for the Vendor transferred the entire issued share capital of Greatest Profit Investment Limited (the “Target HK”) to the Target BVI at a consideration of HK\$1 on 21 April 2010. As at the date of this report, the Target BVI became the holding company of the Target HK, which was incorporated in Hong Kong and the direct/indirect holding company of all the other subsidiaries.

As at the date of this report, the Target BVI had the following subsidiaries, which are private companies with limited liability and were acquired by the Target BVI subsequent to 28 February 2010:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Attributable equity interests held by the Target BVI	Principal activities
Greatest Profit Investment Limited	Limited liability company incorporated in Hong Kong on 8 June 2009	1 ordinary share of HK\$1	100% (Direct)	Investment holding
深圳環彩普達科技有限公司 (transliterated as Shenzhen Huancai Puda Technology Company Limited) (the "Target JV")	Equity joint venture established in the People's Republic of China ("PRC") on 9 November 2006	Registered capital of RMB30,000,000 (Note)	51% (Indirect)	Development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services
鄭州環彩信息技術有限公司 (“鄭州環彩”)	Limited liability company established in the PRC on 9 October 2007	Registered capital of RMB500,000	60% (Indirect)	Development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services
重慶環彩科技有限公司 (“重慶環彩”)	Limited liability company established in the PRC on 28 July 2009	Registered capital of RMB1,000,000	60% (Indirect)	Development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services

Note: The registered capital of the Target JV is RMB40.81 million of which RMB30 million has been contributed. The Target HK is committed to contribute the outstanding registered capital of the Target JV payable by the Target HK of RMB10.81 million on or before 20 December 2010. However, the Vendor has agreed to settle such outstanding registered capital on behalf of the Target HK on or before completion of the Acquisition.

As at the date of this report, no audited financial statements have been prepared for the Target BVI since the date of its incorporation, as it was newly incorporated and has not been involved in any business transactions, other than the acquisition of Target HK.

For the purpose of this report, the sole director of the Target BVI has prepared management accounts of the Target BVI for the Relevant Period in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). We have, for the purpose of this report, carried out appropriate audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We have examined the Underlying Financial Statements in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The statement of comprehensive income, statement of changes in equity and statement of cash flows of the Target BVI for the Relevant Period and the statement of financial position as at 28 February 2010 as set out in this report have been prepared based on the Underlying Financial Statements for the Relevant Period for the purpose of preparing our report for inclusion in the Circular.

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

In our opinion, the Financial Information together with notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the Target BVI as at 28 February 2010, and of the results and cash flows of the Target BVI for the Relevant Period.

Without qualifying our opinion, we draw attention to note 1 to the Financial Information set out in Appendix IIA below which indicates that at 28 February 2010 the Target BVI had net liabilities of HK\$10,592. In addition, the Target BVI incurred a net loss of HK\$10,600 for the period from 4 January 2010 (date of incorporation) to 28 February 2010. Accordingly, the Target BVI is reliant on the shareholder of the Target BVI for support in order to meet its existing short term financial obligations. The Financial Information has been prepared on a going concern basis on the assumptions that the shareholder will provide financial support to the Target BVI until the date of the Acquisition is completed and the Company will provide financial support to the Target BVI upon completion of the Acquisition. The validity of the Financial Information being prepared on a going concern basis depends upon the continuing financial support from the shareholder and the Company respectively before and after completion of the Acquisition. These matters, along with other matters as forth in note 1 below, indicate the existence of a material uncertainty which may cast doubt upon the Target BVI’s ability to continue as a going concern. The Financial Information does not include any adjustments that would result from failure of such measures.

I. FINANCIAL INFORMATION

Statement of comprehensive income

	<i>Notes</i>	For the period from 4 January 2010 (date of incorporation) to 28 February 2010 <i>HK\$</i>
Revenue	5	–
General and administrative expenses		<u>(10,600)</u>
Loss before income tax	8	(10,600)
Income tax	7	<u>–</u>
Loss for the period and total comprehensive loss for the period		<u><u>(10,600)</u></u>

Statement of financial position

	<i>Notes</i>	At 28 February 2010 <i>HK\$</i>
Current liabilities		
Amount due to a shareholder	13	<u>10,592</u>
Net liabilities		<u><u>(10,592)</u></u>
Capital and reserves		
Share capital	14	8
Accumulated losses		<u>(10,600)</u>
Total equity		<u><u>(10,592)</u></u>

Statement of changes in equity

	Attributable to owner of the Target BVI Share capital HK\$ (Note 14)	Accumulated losses HK\$	Total equity HK\$
At 4 January 2010 (date of incorporation)	–	–	–
Loss for the period and total comprehensive loss for the period	–	(10,600)	(10,600)
Issue of ordinary share	<u>8</u>	<u>–</u>	<u>8</u>
At 28 February 2010	<u><u>8</u></u>	<u><u>(10,600)</u></u>	<u><u>(10,592)</u></u>

Statement of cash flows

	For the period from 4 January 2010 (date of incorporation) to 28 February 2010 HK\$
Cash flows from operating activities	
Loss before income tax and operating cash flows before movements in working capital	(10,600)
Increase in amount due to a shareholder	<u>10,592</u>
Net cash used in operating activities	<u>(8)</u>
Cash flows from financing activities	
Proceeds from issue of ordinary share	<u>8</u>
Net cash generated by financing activities	<u>8</u>
Cash and cash equivalents at the beginning and at the end of period	<u><u>–</u></u>

Notes to the Financial Information

1. BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

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

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

The Financial Information of the Target BVI is presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Target BVI.

At 28 February 2010 the Target BVI had net liabilities of HK\$10,592. In addition, the Target BVI incurred a net loss of HK\$10,600 for the period from 4 January 2010 (date of incorporation) to 28 February 2010. Accordingly, as at the date of this report, the Target BVI is reliant on the shareholder for support in order to meet its existing short term financial obligations.

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

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

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

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

		<i>Notes</i>
HKFRSs (Amendments)	Improvements to HKFRSs 2010	1
HKAS 24 (Revised)	Related Party Disclosures	4
HKAS 32 (Amendment)	Classification of Rights Issues	2
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters	3
HKFRS 9	Financial Instruments (relating to the classification and measurement of financial assets)	5
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement	4
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments	3

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Taxation

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

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

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

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

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

Impairment of tangible and intangible assets other than goodwill

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

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

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

Provisions

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

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

Financial instruments

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

Financial assets

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

Loans and receivables

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

Impairment of financial assets

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

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

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

Financial liabilities and equity

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

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

Financial liabilities

Financial liabilities (including amount due to a shareholder) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

5. REVENUE

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

6. SEGMENT INFORMATION

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

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

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

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

7. INCOME TAX

No provision for income tax has been made as the Target BVI did not generate any taxation profit during the Relevant Period.

No deferred tax assets and liabilities are recognised in the Financial Information as the Target BVI did not have material temporary differences arising between the tax bases of assets and liabilities and their carrying amounts at 28 February 2010.

8. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

	For the period from 4 January 2010 (date of incorporation) to 28 February 2010 HK\$
Auditors' remuneration	–
Employee benefits expense	
– Director's remuneration	–
– Other staff cost	–
Preliminary expenses	<u>10,600</u>

9. DIRECTOR'S EMOLUMENTS

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

	Fees	Salaries and allowances	Contributions to retirement benefits scheme	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
For the period from 4 January 2010 (date of incorporation) to 28 February 2010				
Leung Ngai Man (<i>Note (i)</i>)	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

Note:

- (i) Appointed on 4 January 2010.

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

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

Compensation to key management personnel

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

10. EMPLOYEES' EMOLUMENTS

No employees' emoluments were paid by the Target BVI during the Relevant Period.

11. DIVIDENDS

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

12. LOSS PER SHARE

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

13. AMOUNT DUE TO A SHAREHOLDER

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

14. SHARE CAPITAL

At 28 February 2010

Authorised:

50,000 ordinary shares of US\$1 each	US\$50,000
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Issued and fully paid:

1 ordinary share of US\$1	HK\$8
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On 4 January 2010, the Target BVI was incorporated with an initial authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1 each. Upon incorporation, the Target BVI issued 1 ordinary share of US\$1 at par to the subscriber as the capital base of the Target BVI.

15. FINANCIAL INSTRUMENTS**(a) Categories of financial instruments**

At 28 February 2010

HK\$

Financial liabilities***Financial liabilities at amortised cost***

Amount due to a shareholder	10,592
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(b) Financial risk management objectives and policies

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

Market risk

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

Foreign currency risk management

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

Interest rate risk management

The Target is exposed to minimal interest rate risks as the Target BVI's financial liabilities are non-interest bearings.

Price risk

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

Credit risk management

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

Liquidity risk management

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

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

(c) Fair value of financial instruments

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

16. CAPITAL RISK MANAGEMENT

The Target BVI's capital management objectives are:

- to ensure the Target BVI's ability to continue as a going concern;
- to provide an adequate return to shareholder; and
- to maintain an optimal capital structure to reduce cost of capital.

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

17. RELATED PARTY TRANSACTIONS

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

II. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, in May 2010, the Target JV completed the acquisition of 60% equity interests of 鄭州環彩 from 深圳市環彩科技有限公司, a registered owner of Target JV, and 60% equity interests of 重慶環彩 from 吳斌, a director of Target JV, at a consideration of RMB100 and RMB600 respectively. At the date of approval of the Financial Information, the director of Target BVI was still in the midst of determining the financial effect of the aforesaid acquisitions.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target BVI have been prepared in respect of any period subsequent to 28 February 2010.

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

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



Chartered Accountants
Certified Public Accountants

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

30 July 2010

The Board of Directors
China Metal Resources Holdings Limited
Unit 1006, 10th Floor
Tower One Lippo Centre
89 Queensway
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Greatest Profit Investment Limited (the “Target HK”) for the period from 8 June 2009 (date of incorporation) to 31 December 2009 and the two months period ended 28 February 2010 (the “Relevant Periods”), for inclusion in the circular dated 30 July 2010 (the “Circular”) issued by China Metal Resources Holdings Limited (the “Company”) in connection with the very substantial acquisition and connected transaction in respect of the proposed acquisition (the “Acquisition”) by Easywin International Holdings Limited (the “Purchaser”), a wholly-owned subsidiary of the Company, of the entire issued share capital of Pearl Sharp Limited (the “Target BVI”) from Mr. Leung Ngai Man (the “Vendor”), a director and a substantial shareholder of the Company.

The Target HK was incorporated in Hong Kong with limited liability on 8 June 2009 and acts as an investment holding company. The address of the registered office and principal place of business of the Target HK is Room 1606, Office Tower, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong. As at 28 February 2010, the Target HK was wholly and beneficially owned by the Vendor. On 21 April 2010, the Vendor transferred the entire issued share capital of the Target HK to the Target BVI at a consideration of HK\$1. As at the date of this report, the holding company of the Target HK is the Target BVI, a company incorporated in the British Virgin Islands with limited liability. The Target HK has not carried on any business since the date of its incorporation, save for the investment agreement dated 7 March 2010 in respect of the proposed investment in 深圳環彩普達科技有限公司 (transliterated as Shenzhen Huancai Puda Technology Company Limited) (the “Target JV”) by the Target HK, and further into a subscription agreement in April 2010 in respect of the acquisition of 51% interest in the Target JV by the Target HK, which was amended by a supplement agreement dated 13 April 2010 (the “Subscription Agreement”), pursuant to which the Target HK agreed to contribute

RMB20.81 million (equivalent to approximately HK\$23.6 million) to obtain 51% interests in the Target JV. According to the capital verification report, the Vendor had made capital contribution of RMB5 million to the Target JV on 27 April 2010 as part of the subscription consideration. The new business licence for the Target JV with the increased registered capital approved was issued on 29 April 2010. On 23 June 2010, the Vendor made another capital contribution of RMB5 million to the Target JV as part of the subscription consideration. According to the Subscription Agreement entered into by the original Target JV shareholders and the Target HK, the outstanding registered capital of the Target JV of RMB10.81 million has to be paid by the Target HK on or before 20 December 2010. However, the Vendor has agreed to settle such outstanding registered capital on behalf of the Target HK on or before completion of the Acquisition. As at the date of this report, the Target HK became the holding company of the Target JV, which was established in the People's Republic of China ("PRC") and the direct/indirect holding company of all the other subsidiaries.

As at the date of this report, the Target HK had the following subsidiaries, which are private companies with limited liability and was acquired by the Target HK subsequent to 28 February 2010:

Name of subsidiary	Place and date of establishment	Paid up registered capital	Attributable equity interests held by the Target HK	Principal activities
Shenzhen Huancai Puda Technology Company Limited	Equity joint venture established in the PRC on 9 November 2006	Registered capital of RMB30,000,000 (Note)	51% (Direct)	Development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services
鄭州環彩信息技術有限公司 ("鄭州環彩")	Limited liability company established in the PRC on 9 October 2007	Registered capital of RMB500,000	60% (Indirect)	Development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services

Name of subsidiary	Place and date of establishment	Paid up registered capital	Attributable equity interests held by the Target HK	Principal activities
重慶環彩科技 有限公司 ("重慶環彩")	Limited liability company established in the PRC on 28 July 2009	Registered capital of RMB1,000,000	60% (Indirect)	Development of computer software and hardware, sale of self-developed technology or results and provision of relevant technical consultancy services

Note: The registered capital of the Target JV is RMB40.81 million of which RMB30 million has been contributed. The Target HK is committed to contribute the outstanding registered capital of the Target JV payable by the Target HK of RMB10.81 million on or before 20 December 2010. However, the Vendor has agreed to settle such outstanding registered capital on behalf of the Target HK on or before completion of the Acquisition.

The financial year end date of the Target HK is December 31. As at the date of this report, no audited financial statements have been prepared for Target HK as the Target HK was newly incorporated and has not been involved in any business transactions, other than the acquisition of Target JV.

For the purpose of this report, the directors of the Target HK has prepared management accounts of the Target HK for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have, for the purpose of this report, carried out appropriate audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We have examined the Underlying Financial Statements in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The statement of comprehensive income, statement of changes in equity and statement of cash flows of the Target HK for the Relevant Periods and the statement of financial position as at 31 December 2009 and 28 February 2010 as set out in this report have been prepared based on the Underlying Financial Statements for the Relevant Periods for the purpose of preparing our report for inclusion in the Circular.

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

In our opinion, the Financial Information together with notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the Target HK as at 31 December 2009 and 28 February 2010, and of the results and cash flows of the Target HK for the Relevant Periods.

Without qualifying our opinion, we draw attention to note 1 to the Financial Information set out in Appendix IIB below which indicates that at 31 December 2009 and 28 February 2010 the Target HK had net liabilities of HK\$9,544 and HK\$9,761 respectively. In addition, the Target HK incurred a net loss of HK\$9,545 and HK\$217 for the period from 8 June 2009 (date of incorporation) to 31 December 2009 and the two months period ended 28 February 2010 respectively. Accordingly, the Target HK is reliant on the shareholder of the Target HK for support in order to meet its existing short term financial obligations. The Financial Information has been prepared on a going concern basis on the assumptions that the shareholder will provide financial support to the Target HK until the date of the Acquisition is completed and the Company will provide financial support to the Target HK upon completion of the Acquisition. The validity of the Financial Information being prepared on a going concern basis depends upon the continuing financial support from the shareholder and the Company respectively before and after completion of the Acquisition. These matters, along with other matters as forth in note 1 below, indicate the existence of a material uncertainty which may cast doubt upon the Target HK's ability to continue as a going concern. The Financial Information does not include any adjustments that would result from failure of such measures.

I. FINANCIAL INFORMATION

Statement of comprehensive income

		For the period from 8 June 2009 (date of incorporation) to 31 December 2009	For the two months period ended 28 February 2010
	<i>Notes</i>	<i>HK\$</i>	<i>HK\$</i>
Revenue	5	–	–
Other operating income	7	15	3
General and administrative expenses		<u>(9,560)</u>	<u>(220)</u>
Loss before income tax	9	(9,545)	(217)
Income tax	8	<u>–</u>	<u>–</u>
Loss for the period and total comprehensive loss for the period		<u>(9,545)</u>	<u>(217)</u>

Statement of financial position

		At 31 December 2009 HK\$	At 28 February 2010 HK\$
	<i>Notes</i>		
Current assets			
Bank balances	14	<u>245</u>	<u>28</u>
Current liabilities			
Amount due to a shareholder	15	<u>9,789</u>	<u>9,789</u>
Net liabilities		<u>(9,544)</u>	<u>(9,761)</u>
Capital and reserves			
Share capital	16	1	1
Accumulated losses		<u>(9,545)</u>	<u>(9,762)</u>
Total equity		<u>(9,544)</u>	<u>(9,761)</u>

Statement of changes in equity

	Attributable to owner of the Target HK		
	Share capital HK\$	Accumulated losses HK\$	Total equity HK\$
At 8 June 2009 (date of incorporation)	–	–	–
Loss for the period and total comprehensive loss for the period	–	(9,545)	(9,545)
Issue of ordinary share	<u>1</u>	–	<u>1</u>
At 31 December 2009	<u>1</u>	<u>(9,545)</u>	<u>(9,544)</u>
Loss for the period and total comprehensive loss for the period	–	(217)	(217)
At 28 February 2010	<u>1</u>	<u>(9,762)</u>	<u>(9,761)</u>

Statement of cash flows

	For the period from 8 June 2009 (date of incorporation) to 31 December 2009 HK\$	For the two months period ended 28 February 2010 HK\$
Cash flows from operating activities		
Loss before income tax	(9,545)	(217)
Adjustment for:		
Interest income	<u>(15)</u>	<u>(3)</u>
Movements in working capital	(9,560)	(220)
Increase in amount due to a shareholder	<u>9,789</u>	<u>–</u>
Cash generated from/(used in) operations	229	(220)
Interest received	<u>15</u>	<u>3</u>
Net cash generated by/(used in) operating activities	<u>244</u>	<u>(217)</u>
Cash flows from financing activities		
Proceeds from issue of ordinary share	<u>1</u>	<u>–</u>
Net cash generated by financing activities	<u>1</u>	<u>–</u>
Net increase/(decrease) in cash and cash equivalents	245	(217)
Cash and cash equivalents at the beginning of period	<u>–</u>	<u>245</u>
Cash and cash equivalents at the end of period	<u><u>245</u></u>	<u><u>28</u></u>
Analysis of the balances of cash and cash equivalents		
Bank balances	<u><u>245</u></u>	<u><u>28</u></u>

Notes to the Financial Information

1. BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

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

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

The Financial Information of the Target HK is presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Target HK.

At 31 December 2009 and 28 February 2010 the Target HK had net liabilities of HK\$9,544 and HK\$9,761 respectively. In addition, the Target HK incurred a net loss of HK\$9,545 and HK\$217 for the period from 8 June 2009 (date of incorporation) to 31 December 2009 and the two months period ended 28 February 2010 respectively. Accordingly, as at the date of this report, the Target HK is reliant on the shareholder for support in order to meet its existing short term financial obligations.

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

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

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

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Target HK has consistently applied HKFRSs, Hong Kong Accounting Standards ("HKAS(s)"), amendments and interpretations ("INT") issued by the HKICPA that are effective for the annual accounting periods beginning on or after 1 January 2010.

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

		<i>Notes</i>
HKFRSs (Amendments)	Improvements to HKFRSs 2010	1
HKAS 24 (Revised)	Related Party Disclosures	4
HKAS 32 (Amendment)	Classification of Rights Issues	2
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters	3
HKFRS 9	Financial Instruments (relating to the classification and measurement of financial assets)	5
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement	4
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments	3

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition of revenue

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

Taxation

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

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

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

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

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

Impairment of tangible and intangible assets other than goodwill

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

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

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

Cash and cash equivalents

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

Provisions

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

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

Financial instruments

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

Financial assets

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

Loans and receivables

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

Impairment of financial assets

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

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

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

Financial liabilities and equity

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

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

Financial liabilities

Financial liabilities (including amount due to a shareholder) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

5. REVENUE

The Target HK did not generate any revenue during the Relevant Periods.

6. SEGMENT INFORMATION

The directors review the Target HK's internal financial reporting and other information and also obtain other relevant external information in order to assess performance and allocate resources and operating segment is identified with reference to these.

The directors consider that the business of the Target HK is organised in one operating segment as investment holding. Additional disclosure in relation to segment information is not presented as the directors assess the performance of the only operating segment identified based on the consistent information.

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

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

7. OTHER OPERATING INCOME

	For the period from 8 June 2009 (date of incorporation) to 31 December 2009 HK\$	For the two months period ended 28 February 2010 HK\$
Bank interest income	<u>15</u>	<u>3</u>

8. INCOME TAX

Hong Kong Profits Tax is calculated at the rate of 16.5% during the Relevant Periods. Hong Kong Profits Tax had not been provided as the Target HK did not generate any assessable profits arising in Hong Kong during the Relevant Periods.

No deferred tax assets and liabilities are recognised in the Financial Information as the Target HK did not have material temporary differences arising between the tax bases of assets and liabilities and their carrying amounts at 31 December 2009 and 28 February 2010.

9. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

	For the period from 8 June 2009 (date of incorporation) to 31 December 2009 HK\$	For the two months period ended 28 February 2010 HK\$
Auditors' remuneration	–	–
Employee benefits expense		
– Directors' remuneration	–	–
– Other staff cost	–	–
Preliminary expenses	8,200	–
	<u>8,200</u>	<u>–</u>

10. DIRECTORS' EMOLUMENTS

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

	Fees HK\$	Salaries and allowances HK\$	Contributions to retirement benefits scheme HK\$	Total HK\$
For the period from 8 June 2009 (date of incorporation) to 31 December 2009				
Leung Ngai Man (<i>Note (i)</i>)	–	–	–	–
Cartech Limited (<i>Note (ii)</i>)	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
For the two months period ended 28 February 2010				
Leung Ngai Man (<i>Note (i)</i>)	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

Notes:

- (i) Appointed on 13 July 2009.
- (ii) Appointed on 18 May 2009 and resigned on 13 July 2009.

During the Relevant Periods, there were no arrangements under which the directors of the Target HK waived or agreed to waive any remuneration.

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

Compensation to key management personnel

The directors of the Target HK consider that they are the only key management personnel of the Target HK.

11. EMPLOYEES' EMOLUMENTS

No employees' emoluments were paid by the Target HK during the Relevant Periods.

12. DIVIDENDS

No dividends have been paid or proposed by the Target HK during the Relevant Periods.

13. LOSS PER SHARE

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

14. BANK BALANCES

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

15. AMOUNT DUE TO A SHAREHOLDER

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

16. SHARE CAPITAL

	At 31 December 2009 HK\$	At 28 February 2010 HK\$
Authorised:		
10,000 ordinary shares of HK\$1 each	<u>10,000</u>	<u>10,000</u>
Issued and fully paid:		
1 ordinary share of HK\$1	<u>1</u>	<u>1</u>

On 8 June 2009, the Target HK was incorporated with an initial authorised share capital of HK\$10,000 divided into 10,000 ordinary shares of HK\$1 each. Upon incorporation, the Target HK issued 1 ordinary share of HK\$1 at par to the subscriber as the capital base of the Target HK.

17. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	At 31 December 2009 HK\$	At 28 February 2010 HK\$
Financial assets		
<i>Loans and receivables</i>		
Bank balances	<u>245</u>	<u>28</u>
Financial liabilities		
<i>Financial liabilities at amortised cost</i>		
Amount due to a shareholder	<u>9,789</u>	<u>9,789</u>

(b) Financial risk management objectives and policies

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

Market risk

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

Foreign currency risk management

The directors of the Target HK consider that the Target HK is not exposed to significant foreign currency risk.

Interest rate risk management

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

Price risk

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

Credit risk management

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

Liquidity risk management

The liquidity of the Target HK is managed and monitored by maintaining sufficient cash balances. The directors of the Target HK consider that the Target HK does not have significant liquidity risk.

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

(c) Fair value of financial instruments

The directors of the Target HK consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

18. CAPITAL RISK MANAGEMENT

The Target HK's capital management objectives are:

- to ensure the Target HK's ability to continue as a going concern;
- to provide an adequate return to shareholder; and
- to maintain an optimal capital structure to reduce cost of capital.

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

19. RELATED PARTY TRANSACTIONS

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

II. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, in May 2010, the Target JV completed the acquisition of 60% equity interests of 鄭州環彩 from 深圳市環彩科技有限公司, a registered owner of Target JV, and 60% equity interests of 重慶環彩 from 吳斌, a director of Target JV, at a consideration of RMB100 and RMB600 respectively. At the date of approval of the Financial Information, the director of Target HK was still in the midst of determining the financial effect of the aforesaid acquisitions.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target HK have been prepared in respect of any period subsequent to 28 February 2010.

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

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



Chartered Accountants
Certified Public Accountants

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

30 July 2010

The Board of Directors
China Metal Resources Holdings Limited
Unit 1006, 10th Floor
Tower One Lippo Centre
89 Queensway
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding 深圳環彩普達科技有限公司 (transliterated as Shenzhen Huancai Puda Technology Company Limited) (the “Target JV”) for the years ended 31 December 2007, 2008 and 2009 and the two months period ended 28 February 2010 (the “Relevant Periods”), for inclusion in the circular dated 30 July 2010 (the “Circular”) issued by China Metal Resources Holdings Limited (the “Company”) in connection with the very substantial acquisition and connected transaction in respect of the proposed acquisition (the “Acquisition”) by Easywin International Holdings Limited (the “Purchaser”), a wholly-owned subsidiary of the Company, of the entire issued share capital of Pearl Sharp Limited (the “Target BVI”) from Mr. Leung Ngai Man (the “Vendor”), a director and substantial shareholder of the Company.

The Target JV is an equity joint venture established in the People’s Republic of China (“PRC”) on 9 November 2006 and is principally engaged in development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services. The address of the registered office and principal place of business of the Target JV is 深圳市福田区車公廟工業區車公廟工業廠房301棟第1- 6層三層378.

The Target JV was originally owned as to 63% and 37% by two independent third parties (the “Original Target JV Shareholders”). The then registered capital and paid up capital of the Target JV were RMB20 million (equivalent to approximately HK\$22.7 million). On 7 March 2010, the Original Target JV Shareholders and Greatest Profit Investment Limited (the “Target HK”), wholly and beneficially owned by the Vendor, entered into an investment agreement in respect of the proposed investment in the Target JV by the Target HK, and further into a subscription agreement in April 2010 in respect of the acquisition of 51% interest in the Target JV by the Target HK, which was amended

by a supplement agreement dated 13 April 2010 (the "Subscription Agreement"), pursuant to which the Target HK agreed to contribute RMB20.81 million (equivalent to approximately HK\$23.6 million) to obtain 51% interests in the Target JV. According to the capital verification report, the Vendor had made capital contribution of RMB5 million to the Target JV on 27 April 2010 as part of the subscription consideration. The new business licence for the Target JV with the increased registered capital approved was issued on 29 April 2010. On 23 June 2010, the Vendor made another capital contribution of RMB5 million to the Target JV as part of the subscription consideration. According to the Subscription Agreement entered into by the Original Target JV Shareholders and the Target HK, the outstanding registered capital of the Target JV of RMB10.81 million has to be paid by the Target HK on or before 20 December 2010. However, the Vendor has agreed to settle such outstanding registered capital on behalf of the Target HK on or before completion of the Acquisition. Subsequent to the subscription of the capital in Target JV by the Target HK, the paid-up registered capital and the total investment of the Target JV are RMB40.81 million (equivalent to approximately HK\$46.4 million) and RMB59 million (equivalent to approximately HK\$67 million) respectively.

As at the date of this report, the Target JV had the following subsidiaries, which are private companies with limited liability and was acquired by the Target JV subsequent to 28 February 2010:

Name of subsidiary	Place and date of establishment	Paid up registered capital	Attributable equity interests held by the Target JV	Principal activities
鄭州環彩信息技術有限公司 ("鄭州環彩")	Limited liability company established in the PRC on 9 October 2007	Registered capital of RMB500,000	60% (Direct)	Development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services
重慶環彩科技有限公司 ("重慶環彩")	Limited liability company established in the PRC on 28 July 2009	Registered capital of RMB1,000,000	60% (Direct)	Development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services

The financial year end date of the Target JV is December 31. The statutory financial statements of the Target JV for the years ended 31 December 2007, 2008 and 2009 were prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC. The statutory financial statements of the Target JV for the year ended 31 December 2007 were audited by Shen Zhen Tian Heng Certified Public Accountants, certified public accountants registered in the PRC. The statutory financial statements of the Target JV for the year ended 31 December 2008 were audited by Shenzhen Lianjie Certified Public Accountants, certified public accountants registered in the PRC and the statutory financial statements of the Target JV for the year ended 31 December 2009 were audited by Shen Zhen Dao Qin Certified Public Accountants, certified public accountants registered in the PRC.

For the purpose of this report, the directors of the Target JV has prepared management accounts of the Target JV for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). We have, for the purpose of this report, carried out appropriate audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We have examined the Underlying Financial Statements in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The statement of comprehensive income, statement of changes in equity and statement of cash flows of the Target JV for the Relevant Periods and the statement of financial position as at 31 December 2007, 2008 and 2009 and 28 February 2010 as set out in this report have been prepared based on the Underlying Financial Statements for the Relevant Periods for the purpose of preparing our report for inclusion in the Circular.

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

In our opinion, the Financial Information together with notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the Target JV as at 31 December 2007, 2008 and 2009 and 28 February 2010 and of the results and cash flows of the Target JV for the Relevant Periods.

Without qualifying our opinion, we draw attention to note 1 to the Financial Information set out in Appendix IIC below which indicates that at 31 December 2007, 2008 and 2009 and 28 February 2010 the Target JV had net liabilities of HK\$1,332,847, HK\$6,496,801, HK\$11,292,361 and HK\$12,278,267 respectively and excess of current liabilities over current assets of HK\$1,905,982, HK\$7,457,759, HK\$12,199,590 and HK\$13,142,622 respectively. In addition, the Target JV incurred a net loss of HK\$6,916,616, HK\$8,263,023, HK\$4,770,388 and HK\$973,461 for the years ended 31 December 2007, 2008 and 2009 and the two months period ended 28 February 2010 respectively. Accordingly, the Target JV is reliant on the registered owners of the Target JV for support in order to meet its existing short

term financial obligations. The Financial Information has been prepared on a going concern basis on the assumptions that the registered owners will provide financial support to the Target JV until the date of the Acquisition is completed and the Company will provide financial support to the Target JV upon completion of the Acquisition. The validity of the Financial Information being prepared on a going concern basis depends upon the continuing financial support from the registered owners and the Company respectively before and after completion of the Acquisition. These matters, along with other matters as forth in note 1 below, indicate the existence of a material uncertainty which may cast doubt upon the Target JV's ability to continue as a going concern. The Financial Information does not include any adjustments that would result from failure of such measures.

The comparative statement of comprehensive income, statement of changes in equity and statement of cash flows of the Target JV for the two months period ended 28 February 2009, together with the notes thereon (the "28 February 2009 Financial Information") were prepared by the directors of the Target JV solely for the purpose of this report. We have reviewed the 28 February 2009 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the 28 February 2009 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we could become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 28 February 2009 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 28 February 2009 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which confirm with HKFRSs.

I. FINANCIAL INFORMATION

Statement of comprehensive income

		Year ended 31 December 2007 HK\$ (Audited)	Year ended 31 December 2008 HK\$ (Audited)	Year ended 31 December 2009 HK\$ (Audited)	For the two months period ended 28 February 2009 HK\$ (Unaudited)	For the two months period ended 28 February 2010 HK\$ (Audited)
Revenue	5	92,698	2,072,367	1,812,560	360	12
Cost of sales		<u>—</u>	<u>(1,766,647)</u>	<u>(820,879)</u>	<u>(217)</u>	<u>(7)</u>
Gross profit		92,698	305,720	991,681	143	5
Other operating income	7	2,524	1,629	129,890	7,473	22,709
General and administrative expenses		<u>(7,011,838)</u>	<u>(8,570,372)</u>	<u>(5,891,959)</u>	<u>(952,702)</u>	<u>(996,175)</u>
Loss before income tax	9	(6,916,616)	(8,263,023)	(4,770,388)	(945,086)	(973,461)
Income tax	8	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Loss for the year/period		<u>(6,916,616)</u>	<u>(8,263,023)</u>	<u>(4,770,388)</u>	<u>(945,086)</u>	<u>(973,461)</u>
Other comprehensive loss						
Currency translation differences		<u>(29,431)</u>	<u>(148,661)</u>	<u>(25,172)</u>	<u>(9,202)</u>	<u>(12,445)</u>
Other comprehensive loss for the year/period, net of tax		<u>(29,431)</u>	<u>(148,661)</u>	<u>(25,172)</u>	<u>(9,202)</u>	<u>(12,445)</u>
Total comprehensive loss for the year/period		<u><u>(6,946,047)</u></u>	<u><u>(8,411,684)</u></u>	<u><u>(4,795,560)</u></u>	<u><u>(954,288)</u></u>	<u><u>(985,906)</u></u>

Statement of financial position

		At 31 December 2007 Notes HK\$ (Audited)	At 31 December 2008 HK\$ (Audited)	At 31 December 2009 HK\$ (Audited)	At 28 February 2010 HK\$ (Audited)
Non-current assets					
Property, plant and equipment	14	573,135	960,958	907,229	864,355
Current assets					
Trade receivable	15	–	889	450	463
Prepayments, deposits and other receivables	16	398,585	1,070,757	1,081,237	1,710,029
Cash and bank balances	17	966,355	315,401	30,269	83,831
		<u>1,364,940</u>	<u>1,387,047</u>	<u>1,111,956</u>	<u>1,794,323</u>
Current liabilities					
Trade payables	18	–	1,131	71,852	71,931
Amount due to a registered owner	19	1,556,403	244,221	2,675,463	3,359,682
Amounts due to directors	19	–	6,197,151	6,511,348	6,622,908
Amounts due to related companies	19	362,731	509,796	967,285	1,152,996
Other payables and accrued expenses	20	1,351,788	1,892,507	3,085,598	3,729,428
		<u>3,270,922</u>	<u>8,844,806</u>	<u>13,311,546</u>	<u>14,936,945</u>
Net current liabilities		<u>(1,905,982)</u>	<u>(7,457,759)</u>	<u>(12,199,590)</u>	<u>(13,142,622)</u>
Net liabilities		<u>(1,332,847)</u>	<u>(6,496,801)</u>	<u>(11,292,361)</u>	<u>(12,278,267)</u>
Capital and reserves					
Paid up capital	21	7,258,944	10,506,674	10,506,674	10,506,674
Reserves		<u>(8,591,791)</u>	<u>(17,003,475)</u>	<u>(21,799,035)</u>	<u>(22,784,941)</u>
Total equity		<u>(1,332,847)</u>	<u>(6,496,801)</u>	<u>(11,292,361)</u>	<u>(12,278,267)</u>

Statement of changes in equity

	Attributable to owners of the Target JV			Total equity
	Paid up capital HK\$ (Note 21)	Translation reserve HK\$	Accumulated losses HK\$	HK\$
Balance at 1 January 2007	–	(3,177)	(1,642,567)	(1,645,744)
Loss for the year	–	–	(6,916,616)	(6,916,616)
Other comprehensive loss for the year	–	(29,431)	–	(29,431)
Total comprehensive loss for the year	–	(29,431)	(6,916,616)	(6,946,047)
Proceeds from capital contribution	7,258,944	–	–	7,258,944
Balance at 31 December 2007	7,258,944	(32,608)	(8,559,183)	(1,332,847)
Loss for the year	–	–	(8,263,023)	(8,263,023)
Other comprehensive loss for the year	–	(148,661)	–	(148,661)
Total comprehensive loss for the year	–	(148,661)	(8,263,023)	(8,411,684)
Proceeds from capital contribution	3,247,730	–	–	3,247,730
Balance at 31 December 2008	10,506,674	(181,269)	(16,822,206)	(6,496,801)
Loss for the year	–	–	(4,770,388)	(4,770,388)
Other comprehensive loss for the year	–	(25,172)	–	(25,172)
Total comprehensive loss for the year	–	(25,172)	(4,770,388)	(4,795,560)
Balance at 31 December 2009	10,506,674	(206,441)	(21,592,594)	(11,292,361)
Loss for the period	–	–	(973,461)	(973,461)
Other comprehensive loss for the period	–	(12,445)	–	(12,445)
Total comprehensive loss for the period	–	(12,445)	(973,461)	(985,906)
Balance at 28 February 2010	10,506,674	(218,886)	(22,566,055)	(12,278,267)
For the two months period ended 28 February 2009 (Unaudited)				
Balance at 1 January 2009	10,506,674	(181,269)	(16,822,206)	(6,496,801)
Loss for the period	–	–	(945,086)	(945,086)
Other comprehensive loss for the period	–	(9,202)	–	(9,202)
Total comprehensive loss for the period	–	(9,202)	(945,086)	(954,288)
Balance at 28 February 2009	10,506,674	(190,471)	(17,767,292)	(7,451,089)

Statement of cash flows

	Year ended 31 December 2007 HK\$ (Audited)	Year ended 31 December 2008 HK\$ (Audited)	Year ended 31 December 2009 HK\$ (Audited)	For the two months period ended 28 February 2009 HK\$ (Unaudited)	For the two months period ended 28 February 2010 HK\$ (Audited)
Cash flows from operating activities					
Loss before income tax	(6,916,616)	(8,263,023)	(4,770,388)	(945,086)	(973,461)
Adjustments for:					
Depreciation of property, plant and equipment	86,519	190,942	230,727	37,784	43,874
Loss on disposal of property, plant and equipment	-	-	11,907	-	-
Interest income	(1,496)	(1,629)	(570)	-	-
Movements in working capital	(6,831,593)	(8,073,710)	(4,528,324)	(907,302)	(929,587)
(Increase)/decrease in trade receivable	-	(889)	439	361	(13)
(Increase)/decrease in prepayments, deposits and other receivables	(88,929)	(672,172)	(10,480)	40,107	(628,792)
Increase in trade payables	-	1,131	70,721	13,588	79
(Decrease)/increase in amount due to a registered owner	(495,507)	(1,312,182)	2,431,242	339,900	684,219
Increase in amounts due to directors	-	6,197,151	314,197	657,921	111,560
Increase/(decrease) in amounts due to related companies	362,731	147,065	457,489	(339,460)	185,711
Increase/(decrease) in other payables and accrued expenses	1,141,467	540,719	1,193,091	(32,756)	643,830
Net cash (used in)/generated by operating activities	(5,911,831)	(3,172,887)	(71,625)	(227,641)	67,007
Cash flows from investing activities					
Payments for property, plant and equipment	(329,323)	(541,739)	(192,734)	-	-
Proceeds from disposal of property, plant and equipment	-	-	6,798	-	-
Interest received	1,496	1,629	570	-	-
Net cash used in investing activities	(327,827)	(540,110)	(185,366)	-	-
Cash flows from financing activities					
Proceeds from capital contribution	7,258,944	3,247,730	-	-	-
Net cash generated by financing activities	7,258,944	3,247,730	-	-	-
Net increase/(decrease) in cash and cash equivalents	1,019,286	(465,267)	(256,991)	(227,641)	67,007
Cash and cash equivalents at the beginning of year/period	7,379	966,355	315,401	315,401	30,269
Effect of foreign exchange rate changes, net	(60,310)	(185,687)	(28,141)	(10,561)	(13,445)
Cash and cash equivalents at the end of year/period	<u>966,355</u>	<u>315,401</u>	<u>30,269</u>	<u>77,199</u>	<u>83,831</u>
Analysis of the balances of cash and cash equivalents					
Cash and bank balances	<u>966,355</u>	<u>315,401</u>	<u>30,269</u>	<u>77,199</u>	<u>83,831</u>

Notes to the Financial Information

1. BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

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

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

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

At 31 December 2007, 2008 and 2009 and 28 February 2010 the Target JV had net liabilities of HK\$1,332,847, HK\$6,496,801, HK\$11,292,361 and HK\$12,278,267 respectively and excess of current liabilities over current assets of HK\$1,905,982, HK\$7,457,759, HK\$12,199,590 and HK\$13,142,622 respectively. In addition, the Target JV incurred a net loss of HK\$6,916,616, HK\$8,263,023, HK\$4,770,388 and HK\$973,461 for the years ended 31 December 2007, 2008 and 2009 and the two months period ended 28 February 2010 respectively. Accordingly, as at the date of this report, the Target JV is reliant on the registered owners for support in order to meet its existing short term financial obligations.

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

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

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

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Target JV has consistently applied HKFRSs, Hong Kong Accounting Standards ("HKAS(s)"), amendments and interpretations ("INT") issued by the HKICPA that are effective for the annual accounting periods beginning on or after 1 January 2010.

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

		<i>Notes</i>
HKFRSs (Amendments)	Improvements to HKFRSs 2010	1
HKAS 24 (Revised)	Related Party Disclosures	4
HKAS 32 (Amendment)	Classification of Rights Issues	2
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters	3
HKFRS 9	Financial Instruments (relating to the classification and measurement of financial assets)	5
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement	4
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments	3

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition of revenue

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

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

Revenue from provision and development of computer software is recognised when services are provided.

Revenue from technical consultancy services is recognised when the services are rendered.

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

Rental income is recognised in accordance with the Target JV's accounting policy for operating leases (see the accounting policy below).

Leasing

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

The Target JV as lessor

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

The Target JV as lessee

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

Foreign currencies

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

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

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

Retirement benefit costs

Retirement benefits to employees are provided through defined contribution plans.

Pursuant to the relevant regulations of the government of the PRC, the Target JV participates in a local municipal government retirement benefits scheme (the "PRC Scheme"), whereby the Target JV is required to make contributions, as calculated under the rules specified by the relevant PRC local government authorities, to the PRC Scheme to fund its retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the Target JV. The only obligation of the Target JV with respect to the PRC Scheme is to pay the ongoing required contributions under the PRC Scheme mentioned above. Contributions under the PRC Scheme are charged to the statement of comprehensive income as incurred. There are no provisions under the PRC Scheme whereby forfeited contributions may be used to reduce future contributions.

Short term employee benefits

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

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

Taxation

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

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

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

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

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

Property, plant and equipment

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

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

Computers	:	5 years
Plant and equipment	:	3 – 5 years
Office equipment	:	5 years

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

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

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

Impairment of tangible and intangible assets other than goodwill

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

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

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

Cash and cash equivalents

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

Provisions

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

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

Financial instruments

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

Financial assets

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

Loans and receivables

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

Impairment of financial assets

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

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

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

Financial liabilities and equity

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

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

Financial liabilities

Financial liabilities (including trade payables, amount due to a registered owner, amounts due to directors, amounts due to related companies and other payables and accrued expenses) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

5. REVENUE

	Year ended 31 December 2007 HK\$ (Audited)	Year ended 31 December 2008 HK\$ (Audited)	Year ended 31 December 2009 HK\$ (Audited)	For the two months period ended 28 February 2009 HK\$ (Unaudited)	For the two months period ended 28 February 2010 HK\$ (Audited)
Provision and development of computer software	92,698	1,398,127	1,435,196	–	–
Sale of equipment	–	672,255	376,229	–	–
Technical consultancy services income	–	1,985	1,135	360	12
	<u>92,698</u>	<u>2,072,367</u>	<u>1,812,560</u>	<u>360</u>	<u>12</u>

6. SEGMENT INFORMATION

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

The management considers that the business of the Target JV is organised in one operating segment as development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services. Additional disclosure in relation to segment information is not presented as the management assesses the performance of the only operating segment identified based on the consistent information.

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

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

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

7. OTHER OPERATING INCOME

	Year ended 31 December 2007 HK\$ (Audited)	Year ended 31 December 2008 HK\$ (Audited)	Year ended 31 December 2009 HK\$ (Audited)	For the two months period ended 28 February 2009 HK\$ (Unaudited)	For the two months period ended 28 February 2010 HK\$ (Audited)
Bank interest income	1,496	1,629	570	-	-
Rental income	-	-	104,846	-	22,709
Other income	1,028	-	24,474	7,473	-
	<u>2,524</u>	<u>1,629</u>	<u>129,890</u>	<u>7,473</u>	<u>22,709</u>

8. INCOME TAX

The Target JV was subject to PRC Enterprise Income Tax at a rate of 15%, 25%, 20%, 20% and 15% for the years ended 31 December 2007, 2008 and 2009 and the two months periods ended 28 February 2009 and 2010 respectively. No provision for PRC Enterprise Income Tax has been made as the Target JV did not generate any taxable profit in the PRC during the Relevant Periods.

No deferred tax assets and liabilities are recognised in the Financial Information as the Target JV did not have material temporary differences arising between the tax bases of assets and liabilities and their carrying amounts at 31 December 2007, 2008 and 2009 and 28 February 2010.

9. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

	Year ended 31 December 2007 HK\$ (Audited)	Year ended 31 December 2008 HK\$ (Audited)	Year ended 31 December 2009 HK\$ (Audited)	For the two months period ended 28 February 2009 HK\$ (Unaudited)	For the two months period ended 28 February 2010 HK\$ (Audited)
Cost of goods sold	–	673,715	261,016	–	–
Cost of services provided	–	1,092,932	559,863	217	7
Auditors' remuneration	2,055	4,488	4,532	–	–
Employee benefit expense (including directors' emoluments)					
Salaries and other benefits	3,481,872	4,835,519	3,846,384	575,395	615,928
Contributions to retirement benefits scheme	<u>98,560</u>	<u>334,955</u>	<u>108,415</u>	<u>23,049</u>	<u>22,813</u>
	<u>3,580,432</u>	<u>5,170,474</u>	<u>3,954,799</u>	<u>598,444</u>	<u>638,741</u>
Minimum lease payments paid under operating leases in respect of land and buildings	1,038,368	942,608	749,581	182,031	90,007
Loss on disposal of property, plant and equipment	–	–	11,907	–	–
Depreciation of property, plant and equipment	<u>86,519</u>	<u>190,942</u>	<u>230,727</u>	<u>37,784</u>	<u>43,874</u>

10. DIRECTORS' EMOLUMENTS

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

	Fees HK\$	Salaries and other benefits HK\$	Contributions to retirement benefits scheme HK\$	Total HK\$
Year ended 31 December 2007				
王梓濤 (Note (i))	–	331,455	–	331,455
紀夙清 (Note (i))	–	246,639	3,990	250,629
吳斌 (Note (i))	–	302,132	2,589	304,721
Kevin Delehant (Note (i))	–	–	–	–
李偉求 (Note (iii))	–	–	–	–
	–	880,226	6,579	886,805
Year ended 31 December 2008				
王梓濤 (Note (i))	–	364,317	–	364,317
紀夙清 (Note (i))	–	269,307	17,201	286,508
吳斌 (Note (i))	–	329,900	10,198	340,098
Kevin Delehant (Note (i))	–	–	–	–
吳映鐸 (Note (ii))	–	–	–	–
李偉求 (Note (iii))	–	–	–	–
	–	963,524	27,399	990,923
Year ended 31 December 2009				
王梓濤 (Note (i))	–	286,732	–	286,732
紀夙清 (Note (i))	–	271,939	6,891	278,830
吳斌 (Note (i))	–	333,126	4,706	337,832
Kevin Delehant (Note (i))	–	–	–	–
吳映鐸 (Note (ii))	–	–	–	–
	–	891,797	11,597	903,394
For the two months period ended 28 February 2009 (Unaudited)				
王梓濤 (Note (i))	–	45,289	–	45,289
紀夙清 (Note (i))	–	45,289	680	45,969
吳斌 (Note (i))	–	55,479	558	56,037
Kevin Delehant (Note (i))	–	–	–	–
吳映鐸 (Note (ii))	–	–	–	–
	–	146,057	1,238	147,295
For the two months period ended 28 February 2010				
王梓濤 (Note (i))	–	56,773	–	56,773
紀夙清 (Note (i))	–	45,418	681	46,099
吳斌 (Note (i))	–	55,637	561	56,198
Kevin Delehant (Note (i))	–	–	–	–
吳映鐸 (Note (ii))	–	–	–	–
	–	157,828	1,242	159,070

Notes:

- (i) Appointed on 9 November 2006.
- (ii) Appointed on 18 July 2008.
- (iii) Appointed on 9 November 2006 and resigned on 18 July 2008.

During the Relevant Periods, there were no arrangements under which the directors of the Target JV waived or agreed to waive any remuneration.

During the Relevant Periods, no emoluments were paid by the Target JV to the directors as an inducement to join or upon joining the Target JV, or as compensation for loss of office.

Compensation to key management personnel

The directors of the Target JV consider that they are the only key management personnel of the Target JV.

11. EMPLOYEES' EMOLUMENTS

The five individuals whose emoluments were the highest in the Target JV for the Relevant Periods included three directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two highest paid individuals during the Relevant Periods are as follows:

	Year ended 31 December 2007 HK\$ (Audited)	Year ended 31 December 2008 HK\$ (Audited)	Year ended 31 December 2009 HK\$ (Audited)	For the two months period ended 28 February 2009 HK\$ (Unaudited)	For the two months period ended 28 February 2010 HK\$ (Audited)
Salaries and other benefits	270,700	395,891	421,506	70,198	70,398
Contributions to retirement benefits scheme	<u>3,990</u>	<u>16,805</u>	<u>5,774</u>	<u>519</u>	<u>539</u>
	<u>274,690</u>	<u>412,696</u>	<u>427,280</u>	<u>70,717</u>	<u>70,937</u>

The emoluments were all within nil to RMB1,000,000.

During the Relevant Periods, no emoluments were paid by the Target JV to the five highest paid employees, including directors, as an inducement to join or upon joining the Target JV, or as compensation for loss of office.

12. DIVIDENDS

No dividends have been paid or proposed by the Target JV during the Relevant Periods.

13. LOSS PER SHARE

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

14. PROPERTY, PLANT AND EQUIPMENT

	Computers HK\$	Plant and machinery HK\$	Office equipment HK\$	Total HK\$
Cost				
At 1 January 2007	250,428	52,950	–	303,378
Exchange adjustments	29,025	5,423	–	34,448
Additions	<u>287,359</u>	<u>41,964</u>	<u>–</u>	<u>329,323</u>
At 31 December 2007	566,812	100,337	–	667,149
Exchange adjustments	37,103	6,015	997	44,115
Additions	<u>410,609</u>	<u>–</u>	<u>131,130</u>	<u>541,739</u>
At 31 December 2008	1,014,524	106,352	132,127	1,253,003
Exchange adjustments	3,383	338	392	4,113
Additions	190,356	2,378	–	192,734
Eliminated on disposals	<u>–</u>	<u>–</u>	<u>(22,672)</u>	<u>(22,672)</u>
At 31 December 2009	1,208,263	109,068	109,847	1,427,178
Exchange adjustments	<u>1,332</u>	<u>120</u>	<u>121</u>	<u>1,573</u>
At 28 February 2010	<u><u>1,209,595</u></u>	<u><u>109,188</u></u>	<u><u>109,968</u></u>	<u><u>1,428,751</u></u>
Depreciation and impairment				
At 1 January 2007	3,132	794	–	3,926
Exchange adjustments	2,953	616	–	3,569
Provision for the year	<u>71,820</u>	<u>14,699</u>	<u>–</u>	<u>86,519</u>
At 31 December 2007	77,905	16,109	–	94,014
Exchange adjustments	5,893	1,111	85	7,089
Provision for the year	<u>160,626</u>	<u>19,087</u>	<u>11,229</u>	<u>190,942</u>
At 31 December 2008	244,424	36,307	11,314	292,045
Exchange adjustments	953	134	57	1,144
Eliminated on disposals	–	–	(3,967)	(3,967)
Provision for the year	<u>184,886</u>	<u>19,345</u>	<u>26,496</u>	<u>230,727</u>
At 31 December 2009	430,263	55,786	33,900	519,949
Exchange adjustments	474	62	37	573
Provision for the period	<u>36,490</u>	<u>3,290</u>	<u>4,094</u>	<u>43,874</u>
At 28 February 2010	<u><u>467,227</u></u>	<u><u>59,138</u></u>	<u><u>38,031</u></u>	<u><u>564,396</u></u>
Carrying amounts				
At 28 February 2010	<u><u>742,368</u></u>	<u><u>50,050</u></u>	<u><u>71,937</u></u>	<u><u>864,355</u></u>
At 31 December 2009	<u><u>778,000</u></u>	<u><u>53,282</u></u>	<u><u>75,947</u></u>	<u><u>907,229</u></u>
At 31 December 2008	<u><u>770,100</u></u>	<u><u>70,045</u></u>	<u><u>120,813</u></u>	<u><u>960,958</u></u>
At 31 December 2007	<u><u>488,907</u></u>	<u><u>84,228</u></u>	<u><u>–</u></u>	<u><u>573,135</u></u>

15. TRADE RECEIVABLE

	At 31 December 2007 HK\$ (Audited)	At 31 December 2008 HK\$ (Audited)	At 31 December 2009 HK\$ (Audited)	At 28 February 2010 HK\$ (Audited)
Trade receivable	–	889	450	463

The credit terms granted to the customers are varied and are generally the result of negotiations between individual customers and the Target JV. No interest is charged on trade receivable. The following is an ageing analysis of net trade receivable at the end of reporting period.

	At 31 December 2007 HK\$ (Audited)	At 31 December 2008 HK\$ (Audited)	At 31 December 2009 HK\$ (Audited)	At 28 February 2010 HK\$ (Audited)
0 – 30 days	–	889	450	463

None of the trade receivable is either past due or impaired. The Target JV does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Target JV to the counterparty.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December 2007 HK\$ (Audited)	At 31 December 2008 HK\$ (Audited)	At 31 December 2009 HK\$ (Audited)	At 28 February 2010 HK\$ (Audited)
Prepayments and deposits	373,198	1,042,534	1,057,490	1,686,086
Other receivables	25,387	28,223	23,747	23,943
	<u>398,585</u>	<u>1,070,757</u>	<u>1,081,237</u>	<u>1,710,029</u>

17. CASH AND BANK BALANCES

At 31 December 2007, 2008 and 2009 and 28 February 2010, cash and bank balances of HK\$966,247, HK\$315,284, HK\$30,269 and HK\$83,831 respectively were denominated in RMB which is not freely convertible into other currencies.

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

18. TRADE PAYABLES

	At 31 December 2007 HK\$ (Audited)	At 31 December 2008 HK\$ (Audited)	At 31 December 2009 HK\$ (Audited)	At 28 February 2010 HK\$ (Audited)
Trade payables	–	1,131	71,852	71,931

The following is an ageing analysis of trade payables based on the invoice date at the end of the reporting period:

	At 31 December 2007 HK\$ (Audited)	At 31 December 2008 HK\$ (Audited)	At 31 December 2009 HK\$ (Audited)	At 28 February 2010 HK\$ (Audited)
Over 90 days	–	1,131	71,852	71,931

Trade payables are non-interest-bearing.

19. AMOUNTS DUE TO A REGISTERED OWNER/DIRECTORS/RELATED COMPANIES

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

20. OTHER PAYABLES AND ACCRUED EXPENSES

	At 31 December 2007 HK\$ (Audited)	At 31 December 2008 HK\$ (Audited)	At 31 December 2009 HK\$ (Audited)	At 28 February 2010 HK\$ (Audited)
Other payables and accruals	1,351,788	1,892,507	2,810,015	3,453,541
Receipt in advance	–	–	275,583	275,887
	<u>1,351,788</u>	<u>1,892,507</u>	<u>3,085,598</u>	<u>3,729,428</u>

Other payables and accrued expenses are non-interest-bearing.

21. PAID UP CAPITAL

	At 31 December 2007 HK\$ (Audited)	At 31 December 2008 HK\$ (Audited)	At 31 December 2009 HK\$ (Audited)	At 28 February 2010 HK\$ (Audited)
Registered capital	<u>7,258,944</u>	<u>10,506,674</u>	<u>10,506,674</u>	<u>10,506,674</u>

22. OPERATING LEASE COMMITMENTS

The Target JV as lessee

At the end of each reporting period, the Target JV had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 31 December 2007 HK\$ (Audited)	At 31 December 2008 HK\$ (Audited)	At 31 December 2009 HK\$ (Audited)	At 28 February 2010 HK\$ (Audited)
Within one year	642,700	997,740	504,078	761,245
In the second to fifth years inclusive	—	1,493,304	333,909	69,944
	<u>642,700</u>	<u>2,491,044</u>	<u>837,987</u>	<u>831,189</u>

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

The Target JV as lessor

At the end of each reporting period, the Target JV had contracted with tenant for the following future minimum lease payments:

	At 31 December 2007 HK\$ (Audited)	At 31 December 2008 HK\$ (Audited)	At 31 December 2009 HK\$ (Audited)	At 28 February 2010 HK\$ (Audited)
Within one year	—	—	136,104	11,355
In the second to fifth years inclusive	—	—	34,026	—
	<u>—</u>	<u>—</u>	<u>170,130</u>	<u>11,355</u>

23. CAPITAL COMMITMENTS

At the end of each reporting period, the Target JV had the following commitments which were not provided for in the Financial Information:

	At 31 December 2007 HK\$ (Audited)	At 31 December 2008 HK\$ (Audited)	At 31 December 2009 HK\$ (Audited)	At 28 February 2010 HK\$ (Audited)
Authorised and contracted for:				
Purchase of moulds	298,673	79,145	79,394	79,482
Purchase of equipment	—	—	530,029	530,612
	<u>298,673</u>	<u>79,145</u>	<u>609,423</u>	<u>610,094</u>

24. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	At 31 December 2007 HK\$ (Audited)	At 31 December 2008 HK\$ (Audited)	At 31 December 2009 HK\$ (Audited)	At 28 February 2010 HK\$ (Audited)
Financial assets				
<i>Loans and receivables</i>				
Trade receivable	–	889	450	463
Financial assets included in prepayments, deposits and other receivables	217,797	379,983	486,773	638,721
Cash and bank balances	<u>966,355</u>	<u>315,401</u>	<u>30,269</u>	<u>83,831</u>
Financial liabilities				
<i>Financial liabilities at amortised cost:</i>				
Trade payables	–	1,131	71,852	71,931
Amount due to a registered owner	1,556,403	244,221	2,675,463	3,359,682
Amounts due to directors	–	6,197,151	6,511,348	6,622,908
Amounts due to related companies	362,731	509,796	967,285	1,152,996
Financial liabilities included other payables and accrued expenses	<u>1,351,788</u>	<u>1,892,507</u>	<u>2,810,015</u>	<u>3,453,541</u>

(b) Financial risk management objectives and policies

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

Market risk

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

Foreign currency risk management

The directors of the Target JV consider that the Target JV is not exposed to significant foreign currency risk.

Interest rate risk management

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

Price risk

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

Credit risk management

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

Liquidity risk management

The liquidity of the Target JV is managed and monitored by maintaining sufficient cash balances. The directors of the Target JV consider that the Target JV does not have significant liquidity risk.

All the Target JV's financial liabilities are repayable on demand or less than one year. In the opinion of the directors of the Target JV, the preparation of maturity profile is not necessary.

(c) Fair value of financial instruments

The directors of the Target JV consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

25. CAPITAL RISK MANAGEMENT

The Target JV's capital management objectives are:

- to ensure the Target JV's ability to continue as a going concern;
- to provide an adequate return to registered owners; and
- to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Target JV may adjust the amount of dividend paid to registered owners, return capital to registered owners and issue new capital to reduce its debt level.

26. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Financial Information, the Target had the following material related party transactions during the Relevant Periods.

	Year ended 31 December 2007 HK\$ (Audited)	Year ended 31 December 2008 HK\$ (Audited)	Year ended 31 December 2009 HK\$ (Audited)	For the two months period ended 28 February 2009 HK\$ (Unaudited)	For the two months period ended 28 February 2010 HK\$ (Audited)
Income from provision and development of computer software from a registered owner	-	1,217,163	1,414,755	-	-
Sale of equipment to a registered owner	-	672,255	-	-	-
	-	1,889,418	1,414,755	-	-

II. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, in May 2010, the Target JV completed the acquisition of 60% equity interests of 鄭州環彩 from 深圳市環彩科技有限公司, a registered owner of Target JV, and 60% equity interests of 重慶環彩 from 吳斌, a director of Target JV, at a consideration of RMB100 and RMB600 respectively. At the date of approval of the Financial Information, the management of Target JV was still in the midst of determining the financial effect of the aforesaid acquisitions.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target JV have been prepared in respect of any period subsequent to 28 February 2010.

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

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**1. INTRODUCTION**

The unaudited pro forma financial information of the Enlarged Group, comprising the unaudited pro forma consolidated statement of comprehensive income, the unaudited pro forma consolidated statement of financial position and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group (hereinafter collectively referred to as the “Pro Forma Financial Information”), has been prepared by the Directors to illustrate the effect of the Acquisition.

The Pro Forma Financial Information should be read in conjunction with the financial information of the Group as set out in Appendix I, the financial information of the Target Group as set out in Appendix IIA, IIB and IIC, and other financial information included elsewhere in this circular. The Pro Forma Financial Information does not take account of any trading or other transactions subsequent to the dates of the respective financial statements of the companies comprising the Enlarged Group included in the Pro Forma Financial Information.

2. PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group as if the Acquisition had been completed at the commencement of the period reported on. The unaudited pro forma consolidated statement of comprehensive income has been prepared based on (i) the audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2009 as set out in Appendix I to this circular; and (ii) the audited statements of comprehensive income of the Target HK and the Target JV for the year/period ended 31 December 2009 as set out in Appendix IIB and IIC to this circular respectively, after making pro forma adjustments that are (i) directly attributable to the proposed Acquisition and not relating to future events or decisions; and (ii) factually supportable.

The unaudited pro forma consolidated statement of comprehensive income has been prepared for illustrative purposes only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, it may not give a true picture of the results of the Enlarged Group for the year ended 31 December 2009 or any future periods.

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

	The Group for the year ended 31 December 2009 <i>HK\$'000</i> (Audited) <i>Note 2.1</i>	The Target HK for the period ended 31 December 2009 <i>HK\$'000</i> (Audited) <i>Note 2.2</i>	The Target JV for the year ended 31 December 2009 <i>HK\$'000</i> (Audited) <i>Note 2.3</i>	Pro forma adjustments <i>HK\$'000</i> (Unaudited) <i>Note 2.4</i>		Pro forma Enlarged Group for the year ended 31 December 2009 <i>HK\$'000</i> (Unaudited) <i>Note 2.5</i>
Revenue	2,057	-	1,813			3,870
Cost of sales	<u>(1,867)</u>	<u>-</u>	<u>(821)</u>			<u>(2,688)</u>
Gross profit	190	-	992			1,182
Other operating income	71	-	130			201
Administrative expenses	(22,106)	(10)	(5,892)			(28,008)
Impairment of goodwill	(127,400)	-	-			(127,400)
Impairment of supply contract	(287,020)	-	-			(287,020)
Other operating expenses	(969)	-	-			(969)
Finance costs	<u>(21,280)</u>	<u>-</u>	<u>-</u>	(8,945)	(1,800)	<u>(32,025)</u>
Loss before income tax	(458,514)	(10)	(4,770)			(474,039)
Income tax credit	<u>44,244</u>	<u>-</u>	<u>-</u>		297	<u>44,541</u>
Loss for the year/period	<u>(414,270)</u>	<u>(10)</u>	<u>(4,770)</u>			<u>(429,498)</u>
Other comprehensive income						
Exchange differences on translating foreign operations	<u>(4,722)</u>	<u>-</u>	<u>(25)</u>			<u>(4,747)</u>
Other comprehensive income for the year, net of tax	<u>(4,722)</u>	<u>-</u>	<u>(25)</u>			<u>(4,747)</u>
Total comprehensive income for the year/period	<u><u>(418,992)</u></u>	<u><u>(10)</u></u>	<u><u>(4,795)</u></u>			<u><u>(434,245)</u></u>

Notes to the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group:

- 2.1 The amounts have been extracted from the audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2009 as shown in the published annual report of the Company for the year ended 31 December 2009 as set out in Appendix I to this circular.
- 2.2 The adjustment reflects the inclusion of the revenue, income and expenses of the Target HK as if the proposed Acquisition had been completed at the commencement of the year ended 31 December 2009. The amounts have been extracted from the audited statement of comprehensive income of the Target HK for the period ended 31 December 2009 as set out in Appendix IIB to this circular.
- 2.3 The adjustment reflects the inclusion of the revenue, income and expenses of the Target JV as if the proposed Acquisition had been completed at the commencement of the year ended 31 December 2009. The amounts have been extracted from the audited statement of comprehensive income of the Target JV for the year ended 31 December 2009 as set out in Appendix IIC to this circular.
- 2.4 The adjustment reflects the imputed interest expense of approximately HK\$8,945,000 on the Convertible Bonds issued as part of the Consideration for the Acquisition, as if the Acquisition had been completed and the Convertible Bonds were issued by the Company at the commencement of the period reported on. For the purpose of the preparation of the unaudited pro forma consolidated statement of comprehensive income, the imputed interest expense has been computed on the assumption that the principal amount of the Convertible Bonds was HK\$797,500,000, carried an effective interest rate of 1.19% per annum and had a fixed term of 5 years from the date of issue. This adjustment is expected to have a continuing effect on the Enlarged Group.
- 2.5 The adjustment reflects the notional interest expense of HK\$1,800,000 on the Promissory Note, and the corresponding tax effect calculated at the Hong Kong Profits Tax rate of 16.5% thereon, as if the Acquisition had been completed and the Promissory Note of principal amount of HK\$1,200,000,000 was issued by the Company at the commencement of the period reported on. For the purpose of the preparation of the unaudited pro forma consolidated statement of comprehensive income, the notional interest expense has been computed on the assumption that the Promissory Note was outstanding for twelve months. This adjustment is expected to have a continuing effect on the Enlarged Group.

3. PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated statement of financial position of the Enlarged Group as if the Acquisition had been completed at the date reported on. The unaudited pro forma consolidated statement of financial position has been prepared based on (i) the audited consolidated statement of financial position of the Group as at 31 December 2009 as set out in Appendix I to this circular; and (ii) the audited statements of financial position of the Target BVI, the Target HK and the Target JV as at 28 February 2010 as set out in Appendix IIA, IIB and IIC to this circular respectively, after making pro forma adjustments that are (i) directly attributable to the proposed Acquisition and not relating to future events or decisions; and (ii) factually supportable.

The unaudited pro forma consolidated statement of financial position has been prepared for illustrative purposes only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 December 2009 or any future date.

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

	The Group as at 31 December 2009 HK\$'000 (Audited) Note 3.1	The Target BVI as at 28 February 2010 HK\$'000 (Audited) Note 3.2	The Target HK as at 28 February 2010 HK\$'000 (Audited) Note 3.3	The Target JV as at 28 February 2010 HK\$'000 (Audited) Note 3.4	Pro forma adjustments			Pro forma Enlarged Group as at 31 December 2009 HK\$'000 (Unaudited) Note 3.8
					HK\$'000 (Unaudited) Note 3.5	HK\$'000 (Unaudited) Note 3.6	HK\$'000 (Unaudited) Note 3.7	HK\$'000 (Unaudited) Note 3.8
Non-current assets								
Property, plant and equipment	277	-	-	865				1,142
Goodwill	1,002,198	-	-	-	2,086,900	3,000	(11,573)	3,080,525
Other intangible assets	22,158	-	-	-				22,158
	<u>1,024,633</u>	<u>-</u>	<u>-</u>	<u>865</u>				<u>3,103,825</u>
Current assets								
Trade receivables	41	-	-	-				41
Prepayments, deposits and other receivables	539	-	-	1,710				2,249
Pledged deposit	209	-	-	-				209
Cash and bank balances	11,422	-	-	84	(67,000)	(3,000)	35,012	(23,482)
	<u>12,211</u>	<u>-</u>	<u>-</u>	<u>1,794</u>				<u>(20,983)</u>
Current liabilities								
Trade payables	-	-	-	72				72
Other payables and accrued expenses	1,851	-	-	3,729				5,580
Amounts due to directors	-	-	-	6,623				6,623
Amount due to shareholders	-	11	10	3,360				3,381
Amounts due to related companies	-	-	-	1,153				1,153
Current tax liabilities	11	-	-	-				11
	<u>1,862</u>	<u>11</u>	<u>10</u>	<u>14,937</u>				<u>16,820</u>
Net current assets/(liabilities)	<u>10,349</u>	<u>(11)</u>	<u>(10)</u>	<u>(13,143)</u>				<u>(37,803)</u>
Total assets less current liabilities	<u>1,034,982</u>	<u>(11)</u>	<u>(10)</u>	<u>(12,278)</u>				<u>3,066,022</u>
Non-current liabilities								
Convertible bonds	-	-	-	-	724,804			724,804
Promissory note	-	-	-	-	1,200,000			1,200,000
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>				<u>1,924,804</u>
Net assets/(liabilities)	<u>1,034,982</u>	<u>(11)</u>	<u>(10)</u>	<u>(12,278)</u>				<u>1,141,218</u>
Capital and reserves								
Share capital	3,626	-	-	10,507	200	35,012	(45,519)	3,826
Reserves	1,029,513	(11)	(10)	(22,785)	22,200		22,806	1,124,409
					72,696			
Equity attributable to owners of the Company	1,033,139	(11)	(10)	(12,278)				1,128,235
Non-controlling interests	1,843	-	-	-			11,140	12,983
Total equity	<u>1,034,982</u>	<u>(11)</u>	<u>(10)</u>	<u>(12,278)</u>				<u>1,141,218</u>

Notes to the unaudited pro forma consolidated statement of financial position of the Enlarged Group:

- 3.1 The balances have been extracted from the audited consolidated statement of financial position of the Group as at 31 December 2009 as shown in the published annual report of the Company for the year ended 31 December 2009 as set out in Appendix I to this circular.
- 3.2 The adjustment reflects the inclusion of the assets, liabilities and equity of the Target BVI as if the proposed Acquisition had been completed on 31 December 2009. The balances have been extracted from the audited statement of financial position of the Target BVI as at 28 February 2010 as set out in Appendix IIA to this circular.
- 3.3 The adjustment reflects the inclusion of the assets, liabilities and equity of the Target HK as if the proposed Acquisition had been completed on 31 December 2009. The balances have been extracted from the audited statement of financial position of the Target HK as at 28 February 2010 as set out in Appendix IIB to this circular.
- 3.4 The adjustment reflects the inclusion of the assets, liabilities and equity of the Target JV as if the proposed Acquisition had been completed on 31 December 2009. The balances have been extracted from the audited statement of financial position of the Target JV as at 28 February 2010 as set out in Appendix IIC to this circular.
- 3.5 The adjustment reflects the settlement of the Consideration for the Acquisition of HK\$2,112,500,000 in the following manner:
 - (i) an aggregate amount of HK\$67,000,000 was paid on the date of the Acquisition Agreement;
 - (ii) HK\$48,000,000 shall be satisfied by the Purchaser procuring the Company to allot and issue the Consideration Shares, credited as fully paid at the Issue Price, on Completion to the Vendor;
 - (iii) HK\$1,200,000,000 shall be satisfied by the Purchaser procuring the Company to issue the Promissory Note to the Vendor on Completion; and
 - (iv) the remaining balance of the Consideration (being HK\$797,500,000) shall be satisfied by the Purchaser procuring the Company to issue the Convertible Bonds to the Vendor on Completion.

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

- (i) the aggregate amount of HK\$67,000,000, part of the Consideration, was paid by the Group from internal resources of the Group;
- (ii) the Consideration Shares are valued at the published closing price of HK\$0.112 each on 31 December 2009 as if the Acquisition had been completed on 31 December 2009. The pro forma adjustment amounting to HK\$200,000 represents the par value of 200,000,000 Consideration Shares with a par value of HK\$0.001 each, and the pro forma adjustment amounting to HK\$22,200,000 represents the share premium arising from the issue of the 200,000,000 Consideration Shares at the estimated fair value of HK\$0.112 each;
- (iii) the face value of the Promissory Note approximated its fair value at the date of exchange;

- (iv) the face value of the Convertible Bonds approximated their fair value at the date of exchange and the Convertible Bonds are compound financial instruments of two elements, liability component and equity component. The fair value of the liability component of the Convertible Bonds is estimated using the discounted cash flow approach at the prevailing market rate of approximately 1.93%. The fair value of the equity component of the Convertible Bonds is represented by the residual amount after taking out the liability component. At the date of exchange, an amount of approximately HK\$724,804,000 is credited as the liability component of the Convertible Bonds. The amount of approximately HK\$72,696,000, representing the difference between HK\$797,500,000, 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; and
- (v) the estimated costs directly attributable to the Acquisition of approximately HK\$3,000,000 were paid by the Group from internal resources of the Group on 31 December 2009.

Since the actual dates of settlement of the Consideration and the estimated costs directly attributable to the Acquisition would be different from the assumptions used in the preparation of the unaudited pro forma consolidated statement of financial position presented above, the actual financial position arising from the Acquisition might be materially different from the financial position as shown in this Appendix.

The unaudited pro forma consolidated statement of financial position does not take account of any trading or other transactions subsequent to the date of the financial statements included in the unaudited pro forma consolidated statement of financial position (i.e. 31 December 2009). In particular, no adjustment has been made to reflect the placing which was announced by the Company on 15 March 2010 and completed on 25 March 2010. The placing principally involved the allotment and issue of 559,200,000 new Shares at placing price of HK\$0.105 per Share, from which the Company raised net proceeds of approximately HK\$58,000,000.

- 3.6 The adjustment reflects the payment of the estimated costs directly attributable to the Acquisition of approximately HK\$3,000,000 by the Group from its internal resources.
- 3.7 For the purpose of the preparation of the unaudited pro forma consolidated statement of financial position, it has been assumed that the outstanding registered capital of the Target JV had been fully paid up at the date reported on. The adjustment reflects the capital contributions to be made by (i) the Vendor (on behalf of the Target HK) of RMB20,810,000 (equivalent to approximately HK\$23,648,000); and (ii) the Original Target JV Shareholders of RMB10,000,000 (equivalent to approximately HK\$11,364,000), to the Target JV.
- 3.8 The adjustment reflects:
 - (i) the estimated goodwill arising from the Acquisition of approximately HK\$2,078,327,000;
 - (ii) elimination of the share capital and pre-acquisition reserves of the Target Group, as if the Acquisition had been completed at the date reported on; and
 - (iii) recognition of 49% non-controlling interests of the Target JV.

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

- (i) the fair value of the identifiable assets and liabilities of the Target BVI, the Target HK and the Target JV as at 28 February 2010 approximated their carrying amounts as shown in the accountants' reports set out in Appendix IIA, IIB and IIC, respectively.

- (ii) the estimated goodwill arising from the Acquisition represents the excess of the aggregate of the estimated fair value of the total consideration for the Acquisition of approximately HK\$2,086,900,000 and the estimated costs directly attributable to the Acquisition of approximately HK\$3,000,000, over the consolidated net assets attributable to the Target BVI's owners of approximately HK\$11,573,000 as at 28 February 2010.

The amount of the estimated fair value of the total consideration for the Acquisition of approximately HK\$2,086,900,000 had been calculated as the sum of: (i) the cash of HK\$67,000,000; (ii) the fair value of the Consideration Shares of HK\$22,400,000, which are valued at the published closing price of HK\$0.112 each on 31 December 2009 as if the Acquisition had been completed on 31 December 2009; (iii) the face value of the Promissory Note of HK\$1,200,000,000, which had been assumed to approximate its fair value at the date of exchange; and (iv) the face value of the Convertible Bonds of HK\$797,500,000, which had been assumed to approximate its fair value at the date of exchange.

The consolidated net assets attributable to the Target BVI's equity holders of approximately HK\$11,573,000 as at 28 February 2010 represents the sum of: (i) the net liabilities of the Target BVI as at 28 February 2010 of approximately HK\$11,000; (ii) the net liabilities of the Target HK as at 28 February 2010 of approximately HK\$10,000; (iii) the 51% interest in the net assets of the Target JV as at 28 February 2010 of approximately HK\$11,594,000 (which had been calculated as 51% of the total of the net liabilities of the Target JV as at 28 February 2010 of approximately HK\$12,278,000 and the additional registered capital of aggregated amount of approximately HK\$35,012,000 (equivalent to RMB30,810,000), assuming that the outstanding registered capital of the Target JV had been fully paid up at the date reported on).

The amount of the 49% non-controlling interests of the Target JV of approximately HK\$11,140,000 had been calculated at the 49% interest in the net fair value of the identifiable assets and liabilities of the Target JV acquired (assuming that additional registered capital of aggregated amount of approximately HK\$35,012,000 (equivalent to RMB30,810,000) had been fully contributed).

On Completion, the fair value of the Consideration and the net identifiable assets and liabilities of the Target Group will have to be assessed. Since the actual fair values of the assets, liabilities and contingent liabilities of the Target Group on Completion would be different from their estimated fair values used in the preparation of the unaudited pro forma consolidated statement of financial position presented above, the actual financial position arising from the Acquisition might be materially different from the financial position shown in this Appendix.

4. PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated statement of cash flows of the Enlarged Group as if the Acquisition had been completed at the commencement of the period reported on. The unaudited pro forma consolidated statement of cash flows has been prepared based on (i) the audited consolidated statement of cash flows of the Group for the year ended 31 December 2009 as set out in Appendix I to this circular; and (ii) the audited statements of cash flows of the Target HK and the Target PRC for the year/period ended 31 December 2009 as set out in Appendix IIB and IIC to this circular respectively, after making pro forma adjustments that are (i) directly attributable to the proposed Acquisition and not relating to future events or decisions; and (ii) factually supportable.

The unaudited pro forma consolidated statement of cash flows has been prepared for illustrative purposes only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, it may not give a true picture of the cash flows of the Enlarged Group for the year ended 31 December 2009 or any future periods.

APPENDIX III

**UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

	The Group for the year ended 31 December 2009 HK\$'000 (Audited) Note 4.1	The Target HK for the period ended 31 December 2009 HK\$'000 (Audited) Note 4.2	The Target JV for the year ended 31 December 2009 HK\$'000 (Audited) Note 4.3	Pro forma adjustments			Pro forma Enlarged Group for the year ended 31 December 2009 HK\$'000 (Unaudited) Note 4.6
				HK\$'000 (Unaudited) Notes 2.4 & 2.5	HK\$'000 (Unaudited) Note 4.4	HK\$'000 (Unaudited) Note 4.5	HK\$'000 (Unaudited)
Cash flows from operating activities							
Loss before income tax	(458,514)	(10)	(4,770)	(10,745)			(474,039)
Adjustments for:							
Depreciation of property, plant and equipment	126	-	231				357
Expense recognised in respect of equity-settled share-based payments	9,672	-					9,672
Gain on disposal of property classified as held for sale	(18)	-					(18)
Gain on disposal of a subsidiary	(45)	-					(45)
Loss on disposal of property, plant and equipment	-	-	12				12
Loss on redemption of convertible bonds	969	-					969
Impairment of goodwill	127,400	-					127,400
Impairment of supply contract	287,020	-					287,020
Interest income	(8)	-	(1)				(9)
Interest expense	21,280	-	-	10,745			32,025
Movements in working capital	(12,118)	(10)	(4,528)				(16,656)
Decrease in trade receivables	73	-	-				73
Decrease/(increase) in prepayments, deposits and other receivables	6,415	-	(10)				6,405
Increase in trade payables	-	-	71				71
(Decrease)/increase in other payables and accrued expenses	(2,462)	-	1,193				(1,269)
Increase in amount due to shareholders	-	10	2,431				2,441
Increase in amounts due to directors	-	-	314				314
Increase in amounts due to related companies	-	-	457				457

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP

	The Group	The Target	The Target	Pro forma adjustments				Pro forma
	for the	HK for the	JV for the					Enlarged
	year ended	period ended	year ended					Group for the
	31 December	31 December	31 December					year ended
2009	2009	2009					2009	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
Note 4.1	Note 4.2	Note 4.3	Notes 2.4 & 2.5	Note 4.4	Note 4.5	Note 4.6		
Cash used in operations	(8,092)	-	(72)					(8,164)
Income tax paid	(2)	-	-					(2)
Net cash used in operating activities	(8,094)	-	(72)					(8,166)
Cash flows from investing activities								
Payments for intangibles assets	(1,086)	-	-					(1,086)
Proceeds from disposal of property, plant and equipment	-	-	7					7
Proceeds from disposal of property classified as held for sale	12,615	-	-					12,615
Payments for property, plant and equipment	(1,417)	-	(193)					(1,610)
Payment of the consideration for the Acquisition and the estimated costs directly attributable to the Acquisition, less cash and cash equivalents acquired	-	-	-		(67,000)	35,012	315	(34,673)
Net cash inflow on disposal of a subsidiary	1,451	-	-		(3,000)			1,451
Interest received	8	-	1					9
Increase in pledged deposit	(3)	-	-					(3)
Net cash generated by/(used in) investing activities	11,568	-	(185)					(23,290)
Cash flows from financing activities								
Proceeds from issue of shares	12,086	-	-					12,086
Payment for redemption of convertible bonds	(5,000)	-	-					(5,000)
Net cash generated by financing activities	7,086	-	-					7,086
Net increase/(decrease) in cash and cash equivalents	10,560	-	(257)					(24,370)
Cash and cash equivalents at the beginning of year/period	889	-	315				(315)	889
Effect of foreign exchange rate changes, net	(27)	-	(28)					(55)
Cash and cash equivalents at the end of year/period	11,422	-	30					(23,536)

Notes to the unaudited pro forma consolidated statement of cash flows of the Enlarged Group:

- 4.1 The amounts have been extracted from the audited consolidated statement of cash flows of the Group for the year ended 31 December 2009 as shown in the published annual report of the Company for the year ended 31 December 2009 as set out in Appendix I to this circular.
- 4.2 The adjustment reflects the inclusion of the cash flows of the Target HK as if the proposed Acquisition had been completed at the commencement of the year ended 31 December 2009. The amounts have been extracted from the audited statement of cash flows of the Target HK for the period ended 31 December 2009 as set out in Appendix IIB to this circular.
- 4.3 The adjustment reflects the inclusion of the cash flows of the Target JV as if the proposed Acquisition had been completed at the commencement of the year ended 31 December 2009. The amounts have been extracted from the audited statement of cash flows of the Target JV for the year ended 31 December 2009 as set out in Appendix IIC to this circular.
- 4.4 The adjustment reflects the payment of part of the Consideration of HK\$67,000,000 and the payment of the estimated costs directly attributable to the Acquisition of approximately HK\$3,000,000 by the Group from its internal resources. This adjustment is not expected to have a continuing effect on the Enlarged Group.
- 4.5 For the purpose of the preparation of the unaudited pro forma consolidated statement of cash flow, it has been assumed that the outstanding registered capital of the Target JV had been fully paid up at the commencement of the period reported on. The adjustment reflects the capital contributions to be made by (i) the Vendor (on behalf of the Target HK) of RMB20,810,000 (equivalent to approximately HK\$23,648,000); and (ii) the Original Target JV Shareholders of RMB10,000,000 (equivalent to approximately HK\$11,364,000), to the Target JV.
- 4.6 The adjustment is made to show the opening balance of cash and cash equivalents of the Target Group acquired of approximately HK\$315,000 as part of the cash flow effect from the Acquisition under investing activities, as if the Acquisition had been completed at the commencement of the period reported on. This adjustment is not expected to have a continuing effect on the Enlarged Group.

Since the actual dates of payment of the cash consideration for the Acquisition and the estimated costs directly attributable to the Acquisition would be different from the assumptions used in the preparation of the unaudited pro forma consolidated statement of cash flows presented above, the actual timing of cash flows arising from the Acquisition might be materially different from the timing of cash flows as shown in this Appendix.

The unaudited pro forma consolidated statement of cash flows does not take account of any trading or other transactions subsequent to the date of the financial statements included in the unaudited pro forma consolidated statement of cash flows (i.e. 31 December 2009). In particular, no adjustment has been made to reflect the placing which was announced by the Company on 15 March 2010 and completed on 25 March 2010. The placing principally involved the allotment and issue of 559,200,000 new Shares at placing price of HK\$0.105 per Share, from which the Company raised net proceeds of approximately HK\$58,000,000.

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

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



Chartered Accountants
Certified Public Accountants

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

30 July 2010

The Board of Directors
China Metal Resources Holdings Limited
Unit 1006, 10th Floor
Tower One Lippo Centre
89 Queensway
Hong Kong

Dear Sirs,

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

We report on the unaudited pro forma financial information of China Metal Resources Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”), and Pearl Sharp Limited (the “Target BVI”) and its subsidiaries (hereinafter collectively referred to as the “Enlarged Group”), comprising the unaudited pro forma consolidated statement of comprehensive income, the unaudited pro forma consolidated statement of financial position and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group (the “Pro Forma Financial Information”), as set out in Section A entitled “Unaudited Pro Forma Financial Information of the Enlarged Group” in Appendix III of the Company’s circular dated 30 July 2010 (the “Circular”). The Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the Acquisition (as defined in the Circular) might have affected the financial information presented. The basis of preparation of the Pro Forma Financial Information is set out in Section A of Appendix III of the Circular.

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

It is the responsibility solely of the directors of the Company to prepare the Pro Forma Financial Information in accordance with paragraph 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.

It is our responsibility to form an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

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

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

The Pro Forma Financial Information has been prepared 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 Enlarged Group as at 31 December 2009 or any future date; or
- the results or cash flows of the Enlarged Group for the year ended 31 December 2009 or any future periods.

Opinion

In our opinion:

- a. the Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully,

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

The following is the text of a business valuation report, prepared for the purpose of incorporation in this circular received from Norton Appraisals Limited, an independent valuer, in connection with the business valuation of the Target JV as at 31 May 2010.



Unit 01, 21/F, Emperor Group Center
288 Hennessy Road
Wanchai Hong Kong
Tel: (852) 2810 7337 Fax: (852) 2810 6337

30 July, 2010

The Board of Directors
China Metal Resources Holdings Limited
Unit 1006, 10th Floor
Tower One, Lippo Centre
No. 89 Queensway
Hong Kong

Dear Sirs,

Re : Valuation of the 100% equity interest of 深圳環彩普達科技有限公司

In accordance with your instructions for us to carry out an appraisal for the market value of the 100% equity interest of 深圳環彩普達科技有限公司 (unofficially translated as “Shenzhen Huancai Puda Technology Company Limited” and hereinafter referred to as the “Business Enterprise” or “Target JV”). It is our understanding that the Business Enterprise is currently focusing on the provision of innovative sales channel services of lottery business in the People’s Republic of China (hereinafter referred to as the “PRC” or “China”). We confirm that we have conducted site visit, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value for the Business Enterprise as at 31 May, 2010 (hereinafter referred to as the “Date of Appraisal”).

This report states the purpose of appraisal and scope of our works, identifies the business appraised, describes the basis and methodology of our appraisal, investigation and analysis, assumptions and limiting conditions, and presents our opinion of value.

1.0 PURPOSE OF APPRAISAL

This report is being prepared solely for the use of the directors and management of China Metal Resources Holdings Limited (hereinafter referred to as the “Company”) for its inclusion in the circular to its shareholder in relation to the proposed acquisition of the Business Enterprise. In addition, Norton Appraisals Limited (hereinafter referred to as the “Norton Appraisals”) acknowledges that this report may be made available to the independent financial adviser of the Company and used by such adviser as one of the sources of information for formulating its advice to the independent directors and shareholders of the Company, and, if requested, regulators.

Norton Appraisals assumes no responsibility whatsoever to any person other than the directors and management of the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely on their own risk.

2.0 SCOPE OF WORK

For the purpose of our valuation, we have obtained statistical data and information from external public sources concerning the lottery industry in China. On top of the aforesaid public available data, we also made reference to the information and material furnished by the management of the Company and its representatives (hereinafter together referred to as the “Management”). The material information and data provided including but not limited to the following:

- Statistical data of lottery industry in the PRC sourced from the Ministry of Finance, the PRC;
- Key economic indicators of the PRC sourced from the National Bureau of Statistics of China;
- Major contracts and agreements signed with welfare lottery issuing centers including 重慶市福利彩票發行中心 (hereinafter referred to as the “Chongqing Welfare Lottery Issuing Centre”), 廣西福利彩票發行中心 (hereinafter referred to as the “Guangxi Welfare Lottery Issuing Centre”), 河南省福利彩票發行中心 (hereinafter referred to as the “Henan Welfare Lottery Issuing Centre”), 深圳市福利彩票發行中心 (hereinafter referred to as the “Shenzhen Welfare Lottery Issuing Centre”) and 天津市福利彩票發行中心 (hereinafter referred to as the “Tianjin Welfare Lottery Issuing Centre”);
- Business plan and Financial Projection prepared by the Management (hereinafter referred to as the “Business Plan” and “Financial Projection” respectively);
- Legal opinion prepared by a law firm in the PRC (hereinafter referred to as the “Legal Opinion”);

In preparing this report, we have had discussions with the Management in relation to the development and prospects of the innovative sales channel services of lottery business and lottery market in the PRC, and the development, operations and other relevant information of the Business Enterprise. As part of our analysis, we have reviewed such Business Plan, Financial Projection, Legal Opinion and other pertinent data concerning the Business Enterprise provided to us by the Management and have considered such information and data as attainable and reasonable.

We have no reason to believe that any material facts have been withheld from us, however, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

We do not express an opinion as to whether the actual results of the operation of the Business Enterprise will approximate those projections in the Business Plan because assumptions regarding future events by their nature are not capable of independent substantiation.

In arriving the market value for the Business Enterprise, we are making no representation that the business expansion will be successful, or that market growth and penetration will be realized.

3.0 BUSINESS ENTERPRISE

深圳環彩普達科技有限公司 (the “Business Enterprise”) is a limited liability company established in the PRC on 9 November, 2006. The Business Enterprise is principally engaging in the provision and development of value-added operation software systems related to lottery business. It has accumulated extensive operational experiences in innovative sales channels development and operational services of lottery sales. It has also developed various sales systems and softwares including lottery sales through mobile phone networks, short-message-services of mobile phones, and interactive voice response system of telephones as well as lottery sales through banks’ automatic-teller machines, self-service terminals, digital televisions (“DTV”), internet protocol television and mobile terminals.

As at the Date of Appraisal, the Business Enterprise is owned by Greatest Profit Investment Limited (信陞投資有限公司) as to 51% of its equity interest, 深圳市環彩科技有限公司 as to 30.87% of its equity interest and 普達國際有限公司 as to the remaining 18.13% of its equity interest. Upon completion of the proposed acquisition, the Company will indirectly hold 51% equity interest in the Business Enterprise. The shareholding structures immediately after the proposed acquisition of the Business Enterprise are tabulated as follows :

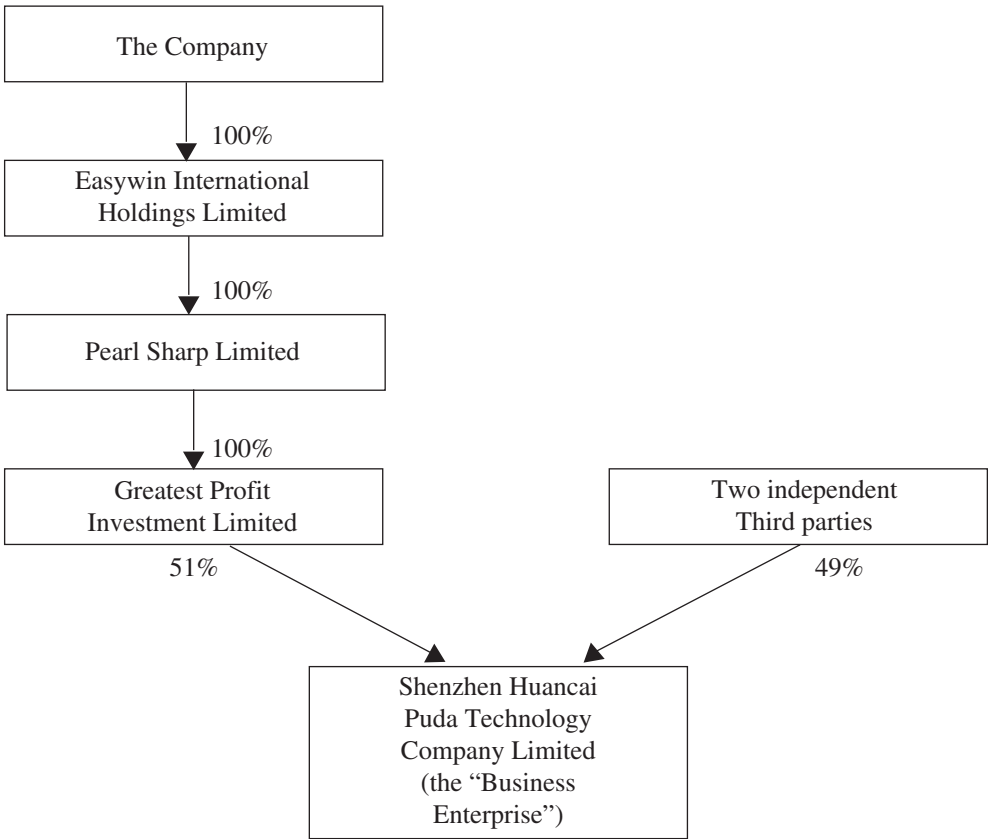


Figure 1: Shareholding structures immediately after the proposed acquisition

Source: Management

3.1 Relevant Legal Document

(i) 企業法人營業執照 (*Enterprise Legal Person Business Licence*)

The Business Enterprise is subject to 企業法人營業執照註冊號440301501120862 for a term commencing from 9 November, 2006 to 9 November, 2056. The main scope of business is confined to development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services. Its registered capital is RMB40,810,000 and paid-up capital is RMB25,000,000. The registered address of the Business Enterprise is situated at 深圳市福田區車公廟工業區車公廟工業廠房301棟第1-6層三層378 (unofficially translated as “378, Level 3, Levels 1-6 of Block 301, Chegongmiao Factory, Chegongmiao Industrial Zone, Futian District, Shenzhen).

(ii) 軟件產品登記證書 (*Software Product Registration Certificate*)

The Business Enterprise has obtained nine software product registration certificates issued by 深圳市科技和信息局 and 深圳市科技工貿和信息化委員會 (“Shenzhen Science, Industry, Trade and Information Technology Commission”). Details of these certificates are summarized as below:

No.	Certificate No.	Name of Software	Date of Issue
1	深DGY-2006-1125	環彩普達ATM彩票銷售軟件V1.0.2	29 Dec 06
2	深DGY-2006-1126	環彩普達GIS彩票銷售綜合管理軟件V1.0.2	29 Dec 06
3	深DGY-2006-1153	環彩普達嵌入式移動彩票銷售軟件V1.0.2	29 Dec 06
4	深DGY-2006-1124	環彩普達移動電話在線銷售彩票軟件V1.0.2	29 Dec 06
5	深DGY-2008-0245	環彩普達彩票銷售中間業務平臺軟件V2.0.2	31 Mar 08
6	深DGY-2008-0246	環彩普達零售渠道彩票銷售軟件V1.0.2	31 Mar 08
7	深DGY-2010-0553	環彩普達數字電視(DTV)彩票軟件V2.0.2	20 May 10
8	深DGY-2010-0554	環彩普達網絡交互電視(IPTV)彩票軟件V2.0.2	20 May 10
9	深DGY-2010-0555	環彩普達委託購買彩票軟件V2.0.2	20 May 10

(iii) 軟件著作權登記證書 (Software Copyright Registration Certificate)

The Business Enterprise has obtained eight software copyright registration certificates issued by the 中華人民共和國國家版權局 (“National Copyright Administration of the People’s Republic of China”). Details of these certificates are summarized as below:

No.	Registration No.	Name of Software	Date of Issue
1	2008SR05281	找零彩票銷售系統V1.0	10 Mar 08
2	2008SR05282	彩票中間業務平臺系統 簡稱：CSPV1.0	10 Mar 08
3	2008SR05283	數字電視彩票銷售系統V1.0	10 Mar 08
4	2008SR05284	移動彩票銷售終端V1.0 簡稱:MT2006	10 Mar 08
5	2008SR05285	委託購買彩票系統V1.0	10 Mar 08
6	2008SR05286	基於GIS的彩票業務綜合管理系統V1.0	10 Mar 08
7	2008SR05287	銀行自助渠道彩票銷售系統V1.0	10 Mar 08
8	2008SR06986	移動電話在線銷售彩票系統V1.0	11 Apr 08

(iv) 外觀設計專利證書 (Certificate of Design Patent)

The Business Enterprise has obtained a certificate of design patent dated 22 October, 2008 issued from the 中華人民共和國國家知識產權局 (“State Intellectual Property Office of the People’s Republic of China”) and it is named as “桌面智能彩票銷售終端 (MT2006) (desktop intelligent lottery sales terminal)”. The expiry date of the patent is 17 September, 2017.

(v) Other Innovation Patents pending for approval

The Business Enterprise has filed another three applications on innovation patents (找零彩票銷售系統及找零方法，電視彩票銷售業務處理系統及方法，銀行自助彩票銷售系統及其方法) on 28 November, 2007, 2 January, 2008 and 3 February, 2008 and is preparing to file two more innovation patent applications on its innovative lottery channels development and operation.

In addition to the above documents, the Business Enterprise has also obtained a 軟件企業認定證書 (Software Enterprise Verification Certificate) and the 高新技術企業證書 (Advanced Technology Enterprise Certificate) on 31 March, 2008 and 31 December, 2009 respectively.

3.2 Major Contracts and Agreements

Currently, the Business Enterprise has entered into various cooperative agreements regarding innovative sales channel operation services of lottery sales with 5 welfare lottery issuing organizations (i.e. local welfare lottery issuing centres) namely, 重慶市福利彩票發行中心 (the “Chongqing Welfare Lottery Issuing Centre”), 廣西福利彩票發行中心 (the “Guangxi Welfare Lottery Issuing Centre”), 河南省福利彩票發行中心 (the “Henan Welfare Lottery Issuing

Centre”), 深圳市福利彩票發行中心 (the “Shenzhen Welfare Lottery Issuing Centre”) and 天津市福利彩票發行中心 (the “Tianjin Welfare Lottery Issuing Centre”). Besides, cooperative agreements or memorandums have been entered into among the Business Enterprise, various welfare lottery issuing organizations and socialized public platform organizations (社會化公用平臺機構).

Under the cooperative agreements, the Business Enterprise was authorized to use its own developed lottery sales systems and softwares to provide the innovative sales channel technologies in Shenzhen, Guangxi province, Chongqing, Henan province and Tianjin so as to provide sales channel operational services in respect of DTV lottery sales, mobile phone welfare lottery sales, commercial retail channel agent welfare lottery sales and self-service banking equipment welfare lottery sales to the relevant welfare lottery issuing centres in the aforesaid regions. At the time being, test runs of lottery sales through the Business Enterprise’s innovative sales channels have already been commenced in Guangxi province, Chongqing and Shenzhen.

Provided that the lottery customers purchase welfare lotteries via the innovative sales channel(s) provided by the Business Enterprise in the above 5 mentioned territories, the Business Enterprise is entitled to share a fixed percentage of turnover with the respective local welfare lottery issuance centres as service fees. The service fees will be further shared with the local business organizations and socialized public platform organizations including tele-media providers, financial institutions and mobile phone service providers.

The following section summarized the contracts entered into between the Business Enterprise and various welfare lottery issuing centres with respective innovative lottery sales channels in the localities.

(i) *Chongqing*

	Contract party	Date of agreement	Innovative lottery sales channel
1	Chongqing Welfare Lottery Issuing Centre, 重慶廣播電視集團 and the Business Enterprise	16 Mar 09	DTV lottery sales system
2	Chongqing Welfare Lottery Issuing Centre and the Business Enterprise	8 Jul 09	Mobile phone online lottery sales system

(ii) Guangxi province

	Contract party	Date of agreement	Innovative lottery sales channel
1	Guangxi Welfare Lottery Issuing Centre, 廣西廣播電視信息網絡股份有限公司 and the Business Enterprise	8 Aug 08	DTV lottery sales system

(iii) Shenzhen

	Contract party	Date of agreement	Innovative lottery sales channel
1	Shenzhen Welfare Lottery Issuing Centre, 中國建設銀行股份有限公司深圳市分行 and the Business Enterprise	15 Mar 07	Self-service banking equipment lottery sales system
2	Shenzhen Welfare Lottery Issuing Centre and the Business Enterprise	26 Sep 09	DTV lottery sales system

(iv) Tianjin

	Contract party	Date of agreement	Innovative lottery sales channel
1	Tianjin Welfare Lottery Issuing Centre and the Business Enterprise	7 May 10	Mobile phone online lottery sales system

(v) *Henan province*

	Contract party	Date of agreement	Innovative lottery sales channel
1	Henan Welfare Lottery Issuing Centre and ⁽ⁱ⁾ 鄭州環彩信息技術有限公司	28 Nov 07	Mobile phone online lottery sales system

Note:

(i) 鄭州環彩信息技術有限公司 is the subsidiary of the Business Enterprise.

4.0 BUSINESS OPERATIONS

As previously mentioned, the Business Enterprise has developed various innovative sales systems and softwares including lottery sales channels through (i) 數字電視彩票銷售系統 (hereinafter referred to as the “digital TV (DTV / IPTV) lottery sales system”); (ii) 零售渠道彩票銷售系統 (hereinafter referred to as the “change” lottery sales system at commercial retail sales agents”); (iii) 嵌入式個人彩票銷售終端系統 (hereinafter referred to as the “embedded mobile lottery sales system”); (iv) 銀行自助終端彩票銷售系統 (hereinafter referred to as the “self-service banking equipment lottery sales system”); (v) 移動電話在線彩票銷售系統 (hereinafter referred to as the “mobile phone online lottery sales system”); and (vi) 網上委托購買彩票銷售系統 (hereinafter referred to as the “authorized online lottery purchasing sales system”). The product information and function characteristics of each innovative sales system is described as follows.

4.1 Digital TV (DTV / IPTV) Lottery Sales System

The digital TV lottery sales system is a type of brand new interactive computer lottery, utilizing the two-way telecommunication technology and the media platform of digital TV. It supports both the traditional long-cycle computer lottery and online quick-drawing computer lottery.

The digital TV lottery sales system is invented to allow lottery purchasers to purchase lotteries at home. The lottery purchasers use their own account number and password to purchase lotteries, with the funds transferred directly through banks and monitored by the lottery centres for fund safety.

The data in the digital TV lottery sales system is encrypted during the transmission process, and is fed through specialized line to the lottery intermediary business platform, which was in turn connected with the lottery centre. This process ensures a high level of safety and stability.

This lottery sales system is attractive in the sense that the lottery purchasing accounts are linked with the lottery purchasers’ bank accounts. This makes the lottery purchases more convenient and with lesser handling charges. In addition, more services can be offered through the rich-color TV lottery purchasing screen, which would arouse lottery purchasers’ interests in lottery.

4.2 “Change” Lottery Sales System at Commercial Retail Sales Agents

Under the “change” lottery sales system, the customers at the commercial retail stores can use the small values of changes received from settlement to buy lotteries. The “change” lottery sales system uses RMB 10 cent as the sales unit, and the change of each customer used to purchase lotteries will be converted into multiples of sales unit. According to current national policy, one lottery amount should be RMB 2, and the change lottery purchased by the customers will be accumulated into one lottery collectively and be used to buy the lottery for the customers automatically. Customers will be informed if any reward is won and the rewards will directly be transferred to the users’ membership cards without any waiving or missing of rewards.

With this arrangement, the vast majority of customers can get rid of the problem in handling small changes during cash settlement. This also offers customers a good chance to win the lottery reward with such a small amount of money. On the other hand, the administrative work involving the changes, such as counting, transportation and storage of coins, can be greatly reduced at consumption venues, saving much of the management cost and time.

4.3 Embedded Mobile Lottery Sales System

Compared to traditional fixed lottery sales channel, this embedded mobile lottery sales system is a portable, wireless and embedded lottery sales terminal. This sales terminal offers mature, reliable and safe products through the colorful seven inches touch screen and acts as a kind of extension and supplementation of the current fixed terminal service.

The embedded mobile lottery sales system provides convenience to lottery purchases in saving the queuing time at the fixed terminal stations. The mobile terminal uses the inlaid system technology which would be free from virus attacks and all the information in the terminal is carried and transmitted on a real-time basis.

4.4 Self-service Banking Equipment Lottery Sales System

The self-service banking equipment lottery sales system is for the lottery purchasers to utilize the bank transaction platforms, including the automatic-teller machines, inquiry terminals, telephones, transaction websites and counter comprehensive systems, to choose the lottery patterns and numbers and hence activate the bank transaction platform to connect the hotline system of the lottery centres for lottery purchasing, lottery drawing and reward winning.

This system turns each bank’s network point to lottery sales point. As the banks’ networks cover mainly the populous areas, such as commercial areas and shopping malls, this complements the lottery sales networks where the coverage is insufficient.

The bank cards can be used for lottery purchases. This arrangement allows the lottery purchasers to buy lottery while making deposits, reducing the intermediary payment and offering great convenience for lottery purchasers. The advanced self serve interface and colorful large screens at banks provide attractive and efficient lottery purchasing experiences and arouse lottery purchasers’ interests to a greater extent.

4.5 Mobile Phone Online Lottery Sales System

The mobile phone online lottery sales system is very different from the traditional short message service. It adopts the easy-to-use graphic interface and allows the lottery purchasers to choose the lottery directly on the screen. The lottery purchasing account number is directly linked with the bank account number of the lottery purchasers which can reduce handling fees and make the process more convenient.

Under this system, lottery purchasers can buy lotteries at any place and any time with their mobiles. The data transmitted in the terminal is with encryption and on a real-time basis. Small rewards will be directly transferred to the lottery winners' bank accounts and large rewards will be informed to the lottery winners immediately to avoid any possibility of waiving or missing.

4.6 Authorized Online Lottery Purchasing Sales System

The authorized online lottery purchasing sales system is to use the internet technology and mature e-business platform to provide personal lottery agency purchasing experience and reliable account management service to the lottery purchasers. This system fulfills the legal requirements for lottery purchasing agency by entering into online purchasing contracts with clients.

The whole agency business process would be conducted under the supervision of the lottery centres so as to protect the lottery purchasers' interests from any losses. The agency service also offers complete account inquiry and maintains historical purchasing records for reference.

With the interaction between the agents and the lottery purchasers, the authorized online lottery purchasing sales system can help to enhance the convenience and efficiency of the lottery purchasing process.

5.0 INDUSTRY OVERVIEW

At the end of 2008, the global lotteries had generated a revenue of USD227.3 billion, which represented a growth of 1.3%, compared to USD224.3 billion in 2007. Recently, the largest lottery markets are those in US, Italy, Spain, China and France.

At the end of 2008, the size of China's lottery market was about USD15.2 billion, ranking the fourth in the world. In 2008, United States was the world's largest lottery market and its lottery per capita spending was USD180. China had the lowest lottery per capita spending among the top lottery markets in the world, which was approximately USD12. The following table illustrates the data of the top ten largest lottery markets in 2008.

Rank	Country	Total lottery Sales (USD in million)	Population (in million)	Per capita spending on lottery (USD)	% of GDP
1	US	54,340	301.1	180.47	0.38%
2	Italy	27,297	58.1	469.83	1.19%
3	Spain	17,449	40.4	431.91	1.09%
4	China	15,225	1,321.9	11.52	0.35%
5	France	14,383	63.7	225.79	0.50%
6	Japan	11,763	127.4	92.33	0.24%
7	Germany	11,642	82.4	141.29	0.32%
8	Greece	7,812	10.7	730.09	2.19%
9	UK	7,440	60.8	122.37	0.28%
10	Canada	5,903	33.4	176.74	0.42%

Table 1: Top ten lottery markets in the world at 2008

Source: 2008 World Lottery Almanac

6.0 CHINA LOTTERY MARKET

6.1 Structures and Regulations

In China, lottery business is sanctioned by the PRC Government and is for the purpose of raising public welfare funds for society and facilitating the development of social community initiatives.

The State Council (國務院) authorized the issuance of welfare lottery (福利彩票) and sports lottery (體育彩票). No foreign lottery can be issued and sold within the PRC. The Ministry of Finance of the State Council (國務院財政部) is responsible for the supervision and administrative of the lotteries nationwide. The Ministry of Civil Affairs (國務院民政部) and the State General Administration of Sports of the State Council (國務院國家體育總局) are responsible for the administration of welfare and sports lotteries nationwide respectively.

The Ministry of Civil Affairs establishes a welfare lottery issuance organization (“China Welfare Lottery Issuance and Administration Centre 中國福利彩票發行管理中心”) whilst the State General Administration of Sports establishes a sports lottery issuance organization (“China Sports Lottery Administration Centre 中國體育彩票發行管理中心”), which are to be responsible for the issuance and sales of welfare and sports lotteries nationwide respectively.

The financial authorities in the provinces, autonomous cities and municipalities are responsible for the supervision and administration of lotteries within their areas of administration.

The introduction of the “Regulations on Administration of Lotteries” (State Council Decree No.554) governs all lottery businesses in China, which states that all enterprises are to be operated with sound legal protection. This paved the way for continued rapid growth in the industry and fostering the safe and healthy development of the China lottery market.

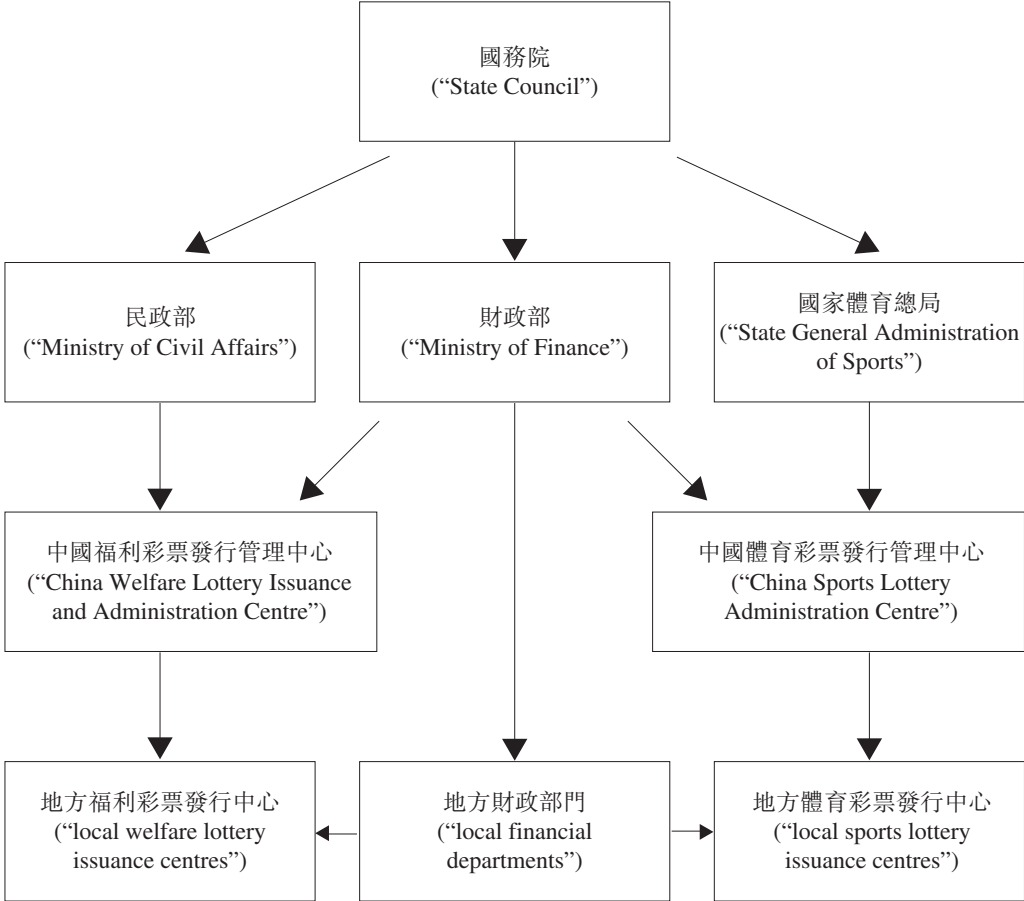


Figure 2 : The structure of China’s lottery market

Source: Management

6.2 Development and Trend

The growth of the PRC lottery market has been facilitated by a number of drivers and initiatives, including favorable population demographics and positive economic growth in the region. Since 1987, the lottery industry in China has experienced two explosive growths in 1995 and 2007 respectively due to the introduction of new lottery sales system. Historical has it that the new sales channels were proven have a great positive impact to the lottery market in China. Before 1995, the lottery tickets were only sold in a concentrated way. But later computer was utilized as a medium of lottery sales. The introduction of computer lottery boosted up the lottery sales from RMB17 billion in 1994 to RMB71 billion in 2005, approximately representing a triple growth in sales. Until 2007, the lottery industry in China has experienced another revolution by launching more ancillary sales channels such as interactive voice response, short message service and video lottery terminal etc. These sales channels make use of various public platforms in the society which are highly accessible. The lottery sales in China exceeded RMB100 billion in 2007 and has been continued to grow rapidly.

According to the latest market statistics, the sales of lotteries had reached RMB62.7 billion in China during the first half of 2009, which represented an increase of 21.8% or RMB11.2 billion over the same period in 2008. The increase was mainly contributed by Yunnan province, Guangdong province, Jiangsu province, Shandong province and Shanghai. It is estimated that there are about 200 million lottery fans in China as at 2009, according to relevant statistics. The following table and diagram illustrate the growth of China's lottery market sales during the period 2000 to 2009.

	Total Lottery Sales <i>(billion in RMB)</i>	Welfare Lottery Sales <i>(billion in RMB)</i>	Sports Lottery Sales <i>(billion in RMB)</i>	Growth of Total Lottery Sales <i>(%)</i>
2000	18.100	10.740	7.360	N/A
2001	28.887	13.987	14.900	59.60%
2002	38.572	16.872	21.700	33.53%
2003	40.140	20.040	20.100	4.07%
2004	38.057	22.657	15.400	-5.19%
2005	71.385	41.185	30.200	87.57%
2006	81.930	49.630	32.300	14.77%
2007	100.000	62.000	38.000	22.06%
2008	105.947	60.347	45.600	5.95%
2009	132.380	75.580	56.800	24.95%

Table 2: Total lottery sales in the PRC from 2000 to 2009

Source: Ministry of Finance, the PRC

The following tables illustrate the growth of welfare lottery market sales at Chongqing, Guangxi province, Shenzhen, Tianjin and Henan province from 2005 to 2009.

Chongqing	Yr 2005	Yr 2006	Yr 2007	Yr 2008	Yr 2009
Total welfare lottery sales (million in RMB)	615	874	1,250	1,115	1,403
Share of the country's welfare lottery sales	1.49%	1.76%	2.02%	1.85%	1.86%
Guangxi province	Yr 2005	Yr 2006	Yr 2007	Yr 2008	Yr 2009
Total welfare lottery sales (million in RMB)	1,312	1,207	1,534	1,367	1,600
Share of the country's welfare lottery sales	3.19%	2.43%	2.47%	2.27%	2.12%
Shenzhen	Yr 2005	Yr 2006	Yr 2007	Yr 2008	Yr 2009
Total welfare lottery sales (million in RMB)	650	876	1,220	1,437	1,989
Share of the country's welfare lottery sales	1.58%	1.77%	1.97%	2.38%	2.63%
Tianjin	Yr 2005	Yr 2006	Yr 2007	Yr 2008	Yr 2009
Total welfare lottery sales (million in RMB)	394	540	724	641	832
Share of the country's welfare lottery sales	0.96%	1.09%	1.17%	1.06%	1.10%
Henan province	Yr 2005	Yr 2006	Yr 2007	Yr 2008	Yr 2009
Total welfare lottery sales (million in RMB)	1,466	1,439	2,010	1,913	2,277
Share of the country's welfare lottery sales	3.56%	2.90%	3.24%	3.17%	3.01%

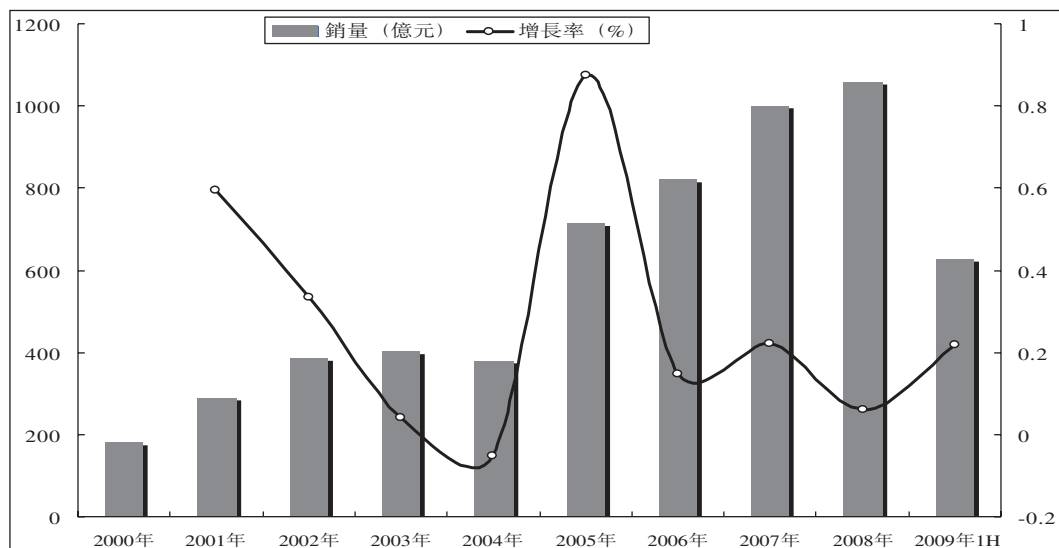


Figure 3: Sale of China's lotteries from 2000 to first half of 2009

Source: Ministry of Finance, the PRC

6.3 Types of lotteries in the PRC market

There are mainly two types of lotteries, namely welfare lottery and sports lottery. In 2005, welfare lottery accounts for 58% of China's total lottery market, up from 48% in 2001. The decrease in the popularity of sports lottery over the past few years could be attributed to numerous scandals involving fakes tickets issued by sales agents which diminished public confidence. In 2008, sports lottery accounted for 43% of total lottery sales, equivalent to RMB45.6 billion. The following diagram displays the proportion of sales between welfare and sports lotteries in 2008.

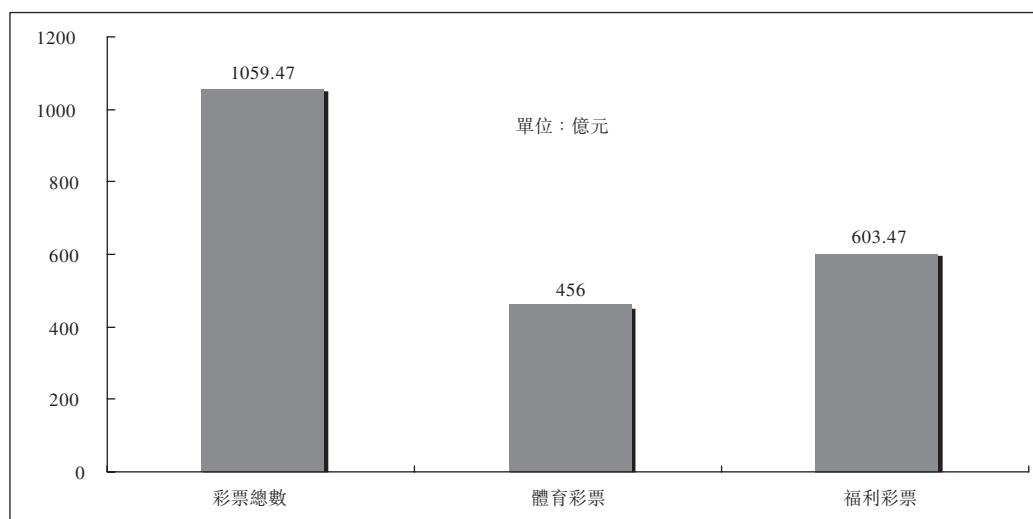


Figure 4: Sales of sports and welfare lotteries in 2008

Source: Ministry of Finance, the PRC

The forms of lotteries in China can be broadly classified as follows:

(i) *Traditional lotteries*

This represents closed-ended printed lottery which involves issuing a fixed number of tickets with a pre-printed number of each ticket. They are also known as Computerised Ticket Games (CTG). There are national and provincial pools and frequency of drawing vary from weekly to daily. The prizes are pre-set and the winners are made public later via notice boards and TV shows. This form of lottery utilizes uniform printing, code numbers and a fixed number of sales outlets, e.g. cash register type lottery kiosks. Types of games under traditional lotteries include 2D, 3D and Lotto.

(ii) *Instant lotteries*

For this category of lotteries, the buyers would learn the result on real-time basis. This is the fastest growing form of lottery in the PRC due to its 'instant win' nature. This lottery type is usually supported by large-scale sales and advertising promotions. Instant scratch cards were re-introduced to the market in 2005 following their removal in 2003 due to the high frequency of fake tickets.

(iii) *Video lottery terminals (VLT)*

This is the most recent form of lottery in the PRC. This VLT lottery is akin to the western-style slot machines where buyers sit at the terminals and choose a game to play. Draw frequency is very high, as fast as the press of the button. All VLTs are restricted by the halls controlled by national welfare lottery authority. All the plays of the PRC's VLTs have to go through the network computer servers, allowing lottery officials to keep close tabs on the money wagered and prizes paid out.

6.4 Favorable industry dynamics of China lottery industry

(i) 30.7% year-on-year growth in the first two months of 2010

Having recorded a 25% compound annual growth rate (“CAGR”) in the past 10 years, national lottery sales in the first two months of 2010 were even more encouraging. According to the statistics from Ministry of Finance, combined lottery sales in January and February 2010 had recorded a 30.7% year-on-year growth. While lottery revenue has recorded long-term growth rate at above GDP growth, industry dynamics and regulatory environment have kept on playing an important role in the yearly growth rate fluctuations.

(ii) Better regulatory clarification

The Lottery Management Regulations (彩票管理條例) enacted by the State Council in July 2009 was the first formal regulatory code on lottery industry, which is aimed to remove regulatory ambiguities. It is estimated that the underground lottery market in China has a size of over RMB1 trillion. The PRC Government has the will to encourage the development of authorized channels in order to fight illegal gambling and thus enlarge the tax revenue source. With the enactment of new regulations, the proliferation of the lottery market is expected.

(iii) Growth in new product offerings

The various lottery product offerings, such as high frequency keno, instant scratch lottery, mobile platform and sports guessing game (SMG) and video lottery terminals VLTs are likely to be effective in stimulating the market, given their higher frequencies, increased simplicity and greater variety. By 2008, the instant lottery and VLTs had made up 21% of the lottery market sales, which is increased from 2% in 2005.

7.0 RISK FACTORS

7.1 Industry risks

(i) Increased competitiveness in the lottery business in the PRC

It is expected that the competition in the lottery industry would be intensified in the near future given its large potential return. The potential profit is expected to attract more firms participating in the industry and competing with the Business Enterprise as other lottery service providers. A number of competitive factors could have a material effect on the results of operations in the current market, including but not limited to:

- Greater degree of operational efficiencies of competitors.
- Increased diversities of products and gaming channels offered by competitors.
- Immersive expansions of market share by competitors.

- (ii) *The lottery industry is subject to the fluctuations in general economic conditions, lottery buyers' spending powers and sentiments*

In general, the gross gaming revenue of lotteries is closely related to the lottery buyers' personal preferences, gambling patterns, level of disposable incomes and confidence in the economy as well as many other factors beyond the control of the Business Enterprise. Although the PRC has shown signs of economic recovery, there is no assurance that it can regain the rapid growth exhibited in the past. In short, any change in lottery buyers' gambling behavior due to changes in economic conditions could materially affect the operating performance of the business.

7.2 Firm specific risks

- (i) *Technological system risks*

There may be substantial cost increases, cost overruns and delays in connection with the development and invention of gaming technologies and systems. Not only does the Business Enterprise need to deliver a system capable of linking across the provinces to a central system but also the network and technologies need to be fast, stable, capable to accommodate multiple games and safeguard against counterfeit tickets and have comprehensive sales and management systems. The demands on technology increase as the breath of distribution increases. The challenge is accentuated by the weak infrastructure at many regions across China.

8.0 CHINA ECONOMY OVERVIEW

China has experienced rapid economic growth over the past few years. According to the National Bureau of Statistics of China ("NBSC"), China's real GDP increased by 9.0% from 2007, and year-on-year growth for nominal GDP is 16.9% in 2008. Growth is expected to average at an impressive 7.8% heading into Year 2013, mainly contributed to continuous growth in domestic demand, private consumption and government spending.

Key economic indicators of the PRC

	2006	2007	2008
Real GDP year-on-year growth (%)	11.6	13.0	9.0
Nominal GDP year-on-year growth (%)	15.7	21.4	16.9
Per capita nominal GDP (RMB)	16,122.3	19,473.8	22,640.5

Table 3: Key economic indicators of the PRC from 2006 to 2008

Source: NBSC

The growth in GDP and the rate of urbanization have led to an improvement in living standards and an increase in purchasing power. Per capita annual disposable income levels of urban residents have increased substantially since 2000. During the period from 2000 to 2008, the per capita annual disposable income of urban households in the PRC increased from approximately RMB6,280 to RMB15,781, representing a CAGR of approximately 12.2%.

The PRC's market for consumer goods has expanded rapidly in the past few years led by the PRC's strong economy, growing middle class and increasing affluence of average citizens. For example, the number of households with an annual disposable income of over US\$2,500 has been more than tripled, from approximately 81 million in 2000 to approximately 263 million in 2009. This income group accounted for 67.6% of total households in 2009, showing substantial increase from 23.1% in 2000.

9.0 DEFINITION OF APPRAISAL

Market Value is defined as the estimated amount for which the business should exchange on the date of valuation between a willing buyer and a willing seller in arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

Our valuation has been prepared in accordance with the HKIS Valuation Standards on Trade-related Business Assets and Business Enterprise (First Edition 2004) published by the Hong Kong Institute of Surveyors and the Business Valuation Standards (First Printed 2005) published by the Hong Kong Business Valuation Forum.

10.0 INVESTIGATION AND ANALYSIS

Our investigation included discussions with the Management in relation to the development and prospects of the provision of the innovative sales channel services of lottery business and lottery market in the PRC, and the development, operations and other relevant information of the Business Enterprise. In addition, we have made relevant inquiries and obtained such further information, statistical figures from external public sources as we consider necessary for the purpose of this appraisal. As part of our analysis, we have made reference to the Business Plan, Financial Projection, Legal Opinion and other pertinent data concerning the Business Enterprise provided to us by the Management and have considered such information and data as attainable and reasonable. We have also consulted other sources of financial and business information.

The appraisal of an interest in the Business Enterprise requires consideration of all pertinent factors, which affect the operation of the business and its ability to generate future investment returns. The factors considered in this appraisal including but not limited to the following:

- The business nature and operations of the Business Enterprise;
- The financial condition of the Business Enterprise;

- The historical trend and projection of lottery market in China;
- The regulations and rules of lottery industry in China;
- The proposed business development and expansion of the Business Enterprise;
- The terms and conditions as stated in formal agreements and contracts;
- The economic and industry data affecting the lottery market in China; and
- The market-derived investment return(s) of similar business.

11.0 GENERAL APPRAISAL APPROACHES

There are three generally accepted approaches to obtain the market value of the Business Enterprise, namely, the Market-Based Approach, the Asset-Based Approach and the Income-Based Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted in valuing business entities that is similar in nature.

11.1 Market-Based Approach

It values a business entity by comparison of the prices at which other similar business nature companies or interest changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to pay for an equally desirable alternative. By adopting this approach, we will first look for valuation indication from the prices of other similar companies or equity interest in companies that were sold recently.

The right transactions employed in analyzing for indications of value need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

The derived multiples (most commonly used are: price to earnings, price to revenues and price to book multiple) based on the analysis of those transactions are then to be applied to the fundamental financial variables of the subject business entity and to arrive at an indicated value of it.

11.2 Asset-Based Approach

The Asset-Based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represent the value of a business entity and equal to the value of its invested capital (equity and long term debt). In other words, the value of the business entity is represented by the money that has been made available to purchase the business assets needed.

This money comes from investors who buy stocks of the business entity (equity) and investors who lend money to the business entity (debt). After collecting the total amounts of money from equity and debt, and converted into various types of assets of the business entity for its operation, their sum equal the value of the business entity.

From a valuation perspective, we will restate the values of all types of assets of a business entity from book values, i.e. historical cost minus depreciation to appropriate standards of value. After the restatement, we can identify the indicated value of the business entity, or, by applying the accounting principle “assets minus liabilities”, to arrive at the value of the equity interest of the business entity.

11.3 Income-Based Approach

The Income-Based Approach focuses on the economic benefits generated by the income producing capability of a business entity. The underlying theory of this approach is that the value of a business entity can be measured by the present worth of the economic benefits to be received over the life of the business entity.

Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realizing those benefits.

Alternatively, this can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

12.0 APPRAISAL APPROACH FOR THE BUSINESS ENTERPRISE

In the process of valuing a business subject, we have taken into consideration the business nature, specialty of its operation and the industry it is participating. Having considered the three general valuation methodologies, we believed that the Income-Based Approach would be appropriate and reasonable in the appraisal for the market value of the Business Enterprise.

In this valuation, the Market-Based Approach is not appropriate as there are insufficient relevant comparable transactions to form a reliable basis for our opinion of value. The Cost-Based Approach is not appropriate as it ignores the economic benefits of the business. We have therefore relied solely on the Income-Based Approach in determining opinion of value.

12.1 Discount Rate

It is a simple method adopting the Income-Based Approach to state the value of a business in present value term. This method is simple and easy to understand. It is well accepted by most analysts and practitioners. A variety of basis has emerged in numerous attempts of establishing the true value of a business. The latest attempt was looking from the firm’s investors perspective including stockholders and bondholders. That is the free cash flow available to the business as a whole.

This is a widely used and accepted method to determine market value of a business or a firm, which is based on a simple reversal calculation to restate all future cash flow as present worth. To adopt this method, we must however, first obtain the weighted average cost of capital (WACC) of the company as a basic discount rate. It is the minimum required return that a valuation subject must earn to satisfy its various capital providers including shareholders and debtholders. The WACC is calculated taking into account the relative weights of each component of the capital structure. It is computed using the formula below :

$$\text{WACC} = W_e \times R_e + W_d \times R_d \times (1 - T)$$

in which

R_e = cost of equity

R_d = cost of debt

W_e = portion of equity value to enterprise value

W_d = portion of debt value to enterprise value

T = corporate tax rate

i) Cost of equity

From modern portfolio management perspective, typical investors are risk-averse and rational. They make all investment decisions based on risk and return of an investment opportunity. The cost of equity, therefore, should account for the risk premium, which is the required additional return over the risk free rate. Additional risk premiums such as country risk premium and size premium are added to reflect the other risk factors concerning the Business Enterprise. All the estimates are supported by public sources like Bloomberg and Morning Star. The capital asset pricing model (CAPM) is used to determine the appropriate cost of equity of the Business Enterprise.

$$\text{Cost of equity} = \text{risk free rate} + \text{equity beta} \times \text{market risk premium} + \text{size premium} + \text{country risk premium}$$

Cost of equity calculation :

(1) Risk free rate	3.28%
(2) Equity beta	0.86
(3) Market risk premium	6.20%
(4) Size premium	1.85%
(5) Country risk premium	1.35%
Cost of equity	11.81%

* *Figures above are subject to rounding process*

Notes :

- (1) This is the yield of 10-year US treasury government bond.
- (2) This is the adjusted beta by making reference from public listed companies with comparable business nature and operation etc which are sourced from Bloomberg.
- (3) Market risk premium = market rate of return – risk free rate.
- (4) This is the risk of small size company in 2010 based on the research conducted by Ibbotson Associates, Inc.
- (5) This is the increased risk associated with investing in a developing country, including business risk, financial risk, liquidity risk, exchange rate risk & country risk.

Given the above variables, we have arrived the cost of equity of 11.81%.

ii) Cost of debt

The cost of debt was made reference to the China Above 5 Years Best Lending Rates. As at the Date of Appraisal, the China Above 5 Years Best Lending Rates is 5.94%.

iii) Weight of debt

The current debt level of the Business Enterprise is not desirable given its stage of development. To stay competitive in the industry, it is reasonable to assume that the Business Enterprise should achieve a debt level toward the average of the weight of debt of its industry comparables. Through the analysis of the industry comparables, the weight of debt is estimated as 17%.

iv) Weight of equity

The weight of equity is estimated as 83% by adopting the same basis as above.

Having considered that the Business Enterprise is at the preliminary stage of development, a 1.5% risk premium is added to reflect the pre-operational risk of the Business Enterprise.

The discount rate considered appropriate for this valuation as at the Date of Appraisal, taking into account of the above, is 12.16%, which is then applied to the after tax cash flow.

12.2 Marketability Discount

In addition, we have adopted a lack of marketability discount of 20% for the Business Enterprise as ownership interest in closely held companies are typically not readily marketable compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. Marketability discount for ownership interest in private companies can range from 3% to 35% according to empirical research. 20% discount is a professional judgment for this valuation based on our experience and the valuation subject.

12.3 Adjustments for debts and cash and cash equivalents

In computing the market value of the Business Enterprise, we have deducted from the assessed enterprise value the interest bearing debts and added back the cash and cash equivalents as at the Date of Appraisal. As confirmed by the Management, the interest bearing debts and cash and cash equivalents are nominal in nature and thus no adjustment has been made in our valuation.

13.0 APPRAISAL ASSUMPTIONS

- We have made reference to the Business Plan and Financial Projection and relied on the Legal Opinion provided by the Management and we have no responsibility for the reliability of the advice;
- As part of its going concern business, the Business Enterprise will successfully carry out all necessary activities for the completion and development of its business;
- Revenue of the Business Enterprise has solely taken into account the interests and benefits derived from the signed formal agreements and contracts up to the Date of Appraisal;
- Revenue is contributed from the territories in which the Business Enterprise provides services in relation to the innovative sales channels in accordance with the terms and conditions of the formal agreements and contracts up to the Date of Appraisal;
- Revenue generated from its business operations is assumed to be highly correlated to the lottery sales in China;
- The projected revenue of the Business Enterprise is based on the following information and data which are gathered from the public sources, the formal contracts and agreements and the Business Plan provided by the Company :
 - Lottery sales forecast in China;
 - Proportional share of welfare lottery to the whole lottery industry;
 - Projected welfare lottery sales in each respective territory;
 - Proportional share of innovative sales channel(s) to the welfare lottery sales in each respective territory; and
 - Services fee attributable to the Business Enterprise in the provision of innovative sales services for the lottery industry.
- Revenue growth is determined by making reference to the historical lottery sale in China;

- Estimation of related costs, expenses and capital expenditure is provided by the Company;
- The profit tax is 15% which is a result of tax benefit due to its business nature as confirmed by the Management;
- The business tax is 5% of the revenue of the Business Enterprise;
- The working capital investment is approximately 5% of the operational expenses of the Business Enterprise;
- All the relevant parties entered into the formal contracts and agreements up to the date of valuation will act in accordance with the terms and conditions as stipulated in those contracts and agreements. In addition, the contracts can be legally executed in the region and jurisdiction in which the contracts and agreements are being subject to;
- Key management, competent personnel and technical staff will be all retained to support ongoing operation of the Business Enterprise;
- All relevant legal approvals, contracts, agreements, business certificates or licenses to operate the business in the localities in which the Business Enterprise operates or intends to operate would be officially obtained and renewable upon expiry;
- Market trend and conditions where the Business Enterprise in operations will not deviate significantly from the economic forecasts in general;
- There will be no major changes in the political, legal, economic or financial conditions in the localities in which the Business Enterprise operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Business Enterprise; and
- Interest rates and exchange rates in the localities for the operation of the Business Enterprise will not differ materially from those presently prevailing.

14.0 LIMITING CONDITIONS

Our conclusion of the market value is derived from generally accepted appraisal procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. This appraisal reflects facts and conditions existing at the Date of Appraisal. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report is reasonable and accurately determined. The data, opinions, or estimates as identified or being furnished by others, which have been used in formulating this analysis, are gathered from reliable sources, however, no guarantee is made nor liability assumed for their accuracy.

We have made reference to the information provided by the Management in arriving at our opinion of value. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

We have not investigated the title to or any legal liabilities of the Business Enterprise and have assumed no responsibility for the title to the Business Enterprise appraised.

We assume no responsibility whatsoever to any person other than the directors and management of the Company in respect of, or arising out of, the content of this report. If others choose to rely in any way on the contents of this report, they do so entirely on their own risk.

We hereby confirm that we have neither present nor prospective interest in the Business Enterprise, the Company and its holding companies, subsidiaries and associated companies, or the value reported herein.

15.0 REMARKS

Unless otherwise stated, all monetary amounts stated in this appraisal report are in Renminbi (RMB).

16.0 OPINION OF VALUE

Based on the investigation and analysis stated above and on the appraisal method employed, we are of the opinion that the market value for the 100% equity interest of the Business Enterprise, as at the Date of Appraisal was in the sum of **RMB4,504,000,000 (RENMINBI FOUR BILLION FIVE HUNDRED AND FOUR MILLION ONLY)**.

Yours faithfully,

For and on behalf of

Norton Appraisals Limited

Nick C. L. Kung

Registered Business Valuer of HKBVF

MRICS, MHKIS, RPS (G.P.)

Director, Corporate Valuations

Note : Mr. Nick C. L. Kung is a Registered Professional Surveyor and Registered Business Valuer of the Hong Kong Business Valuation Forum (HKBVF) who has more than 6 years' experience in business valuation in Hong Kong and the PRC.

Set out below are the texts of the reports from HLB Hodgson Impey Cheng and Cinda International Capital Limited in connection with the cash flow forecasts underlying the valuation on the Target JV as at 31 May 2010 and prepared for the purpose of inclusion in this Circular.

(A) REPORT FROM HLB HODGSON IMPEY CHENG

Chartered Accountants
Certified Public Accountants

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

30 July 2010

The Board of Directors
China Metal Resources Holdings Limited
Unit 1006, 10th Floor
Tower One Lippo Centre
89 Queensway
Hong Kong

Dear Sirs,

China Metal Resources Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”)

**Report on forecast underlying the valuation on the entire equity interest of 深圳環彩普達
科技有限公司 (transliterated as Shenzhen Huancai Puda Technology Company Limited)
(the “Target JV”)**

We have examined the arithmetical accuracy of the calculations of the discounted cash flow forecast underlying the business valuation (the “Underlying Forecast”) dated 30 July 2010 prepared by Norton Appraisals Limited in relation to the appraisal of the valuation of the entire equity interest of the Target JV as at 31 May 2010, which is regarded as a profit forecast under paragraph 29(2) of Appendix 1, Part B 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 Target JV” to the circular of the Company dated 30 July 2010 (the “Circular”).

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

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 is 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 1, Part B 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 relates 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” and 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 entire equity interest of the Target JV.

Opinion

In our opinion, so far as the arithmetical accuracy of the calculations are concerned, the Underlying Forecast has been properly compiled in accordance with the Assumptions made by the Directors.

Yours faithfully,

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

(B) REPORT FROM CINDA INTERNATIONAL CAPITAL LIMITED



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

45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

30 July 2010

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 Norton Appraisals Limited (“**Norton**”) in relation to the appraisal of the valuation on the Target JV (the “**Valuation**”). The Valuation is regarded as a profit forecast under paragraph 29(2) of Appendix I, Part B of the GEM Listing Rules and the Valuation is set out in Appendix IV to the circular of the Company dated 30 July 2010 (the “**Circular**”), of which this report forms part of. Capitalised terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

We have reviewed the forecasts upon which the Valuation has been made for which you as the Directors are solely responsible, and have discussed with you and Norton the information and documents provided by you which formed part of the basis and assumptions upon which the forecasts have been prepared. We have also considered the letter from HLB Hodgson Impey Cheng dated 30 July 2010 addressed to yourselves as set out in Section (A) of this Appendix to the Circular regarding the calculations upon which the forecasts have been made. We have noted that no accounting policies of the Company have been adopted in its preparation as the Valuation relates only to cashflows.

On the basis of the foregoing, we are satisfied that the forecasts upon which the Valuation has been made, for which you as the directors of the Company are solely responsible, have been made after due and careful enquiry by you.

Yours faithfully,
For and on behalf of
Cinda International Capital Limited
Thomas Lai
Executive Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules 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 the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date was as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>100,000,000,000</u>	Shares of HK\$0.001 each	<u>100,000,000</u>
 <i>Issued and fully paid or credited as fully paid:</i>		
4,327,165,247	Shares in issue as at the Latest Practicable Date	4,327,165
200,000,000	Consideration Shares to be issued as partial consideration for the Acquisition	200,000
3,322,916,666	Conversion Shares to be issued upon exercise of the conversion rights attached to the Convertible Bonds as partial consideration for the Acquisition	3,322,917
<u>7,850,081,913</u>	Shares of HK\$0.001 each	<u>7,850,082</u>

All the issued Shares should rank pari passu in all aspects, including all rights as to dividend, voting and interest in capital, among themselves. The Consideration Shares and the Conversion Shares shall rank pari passu with all the Shares in issue in all aspects as at the date of allotment and issue of the Consideration Shares and the Conversion Shares respectively 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.

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

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the share capital of the Company or any of its associated corporation (within the meaning of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

Long positions in the ordinary Shares and underlying Shares

Name of Director	Capacity	Shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of the issued share capital
Mr. Leung Ngai Man ("Mr. Leung")	Beneficial owner	702,615,000	-	702,615,000	16.24%
	Through a controlled corporation	1,474,400 (Note 1)	-	1,474,400	0.03%
Mr. Ng Kwok Chu, Winfield ("Mr. Ng")	Beneficial owner	472,500	10,000,000 (Note 2)	10,472,500	0.24%
Ms. Wu Wei Hua ("Ms. Wu")	Beneficial owner	-	10,000,000 (Note 3)	10,000,000	0.23%

Notes:

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

Save as disclosed above, none of the Directors had registered an interest of short positions in the Shares or underlying Shares or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

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

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

5. MATERIAL ADVERSE CHANGES

The Directors confirm there are no material adverse changes in the financial and trading position of the Group since 31 December 2009, the date of which the latest audited financial statements of the Group were made up.

6. DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or their respective associate(s) was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

7. DIRECTORS' INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or were proposed to be acquired, or disposed of by, or leased to any member of Enlarged Group since 31 December 2009, the date of which the latest audited financial statements of the Group were made up.

8. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in ordinary course of business of the Enlarged Group, have been entered into by the members of the Enlarged Group within two years preceding the date of this circular and are, or maybe, material:

- (a) the provisional agreement for sale and purchase for the disposal ("**Disposal**") of the office unit 1006 (Unit 6), 10th Floor, Tower One Lippo Centre, No. 89 Queensway, Hong Kong entered into between Richtop Holdings Limited ("**Richtop**"), a wholly-owned subsidiary of the Company, as vendor and Hua Hong Trading Company Limited ("**Hua Hong**") as purchaser on 16 December 2008 at a consideration of HK\$12,775,000;

- (b) the formal agreement for sale and purchase for the Disposal to be entered into between Richtop as vendor and Hua Hong as purchaser on 8 January 2009 at a consideration of HK\$12,775,000;
- (c) the Acquisition Agreement;
- (d) the Investment Agreement;
- (e) the Subscription Agreement; and
- (f) the cooperation agreements (other than agreement no. 1, 3 and 8) set out in the paragraph headed "Cooperation agreements on innovative lottery sales channels of the Target JV" in the section headed "Letter from the Board" of this circular.

9. DIRECTORS' INTERESTS IN CONTRACTS

Save as the Acquisition Agreement, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

10. DIRECTORS' SERVICE CONTRACTS

Mr. Leung Ngai Man, Mr. Ng Kwok Chu, Winfield and Ms. Wu Wei Hua have entered into service contracts with the Group on 27 May 2010, 1 December 2009 and 1 February 2010 respectively. All such contracts are for a term of two years. Either the Company or the aforesaid Directors may terminate the service contracts by giving one month's notice or payment of the one month's salary in lieu. The emoluments in connection with each of Mr. Leung Ngai Man's, Mr. Ng Kwok Chu, Winfield's and Mr. Wu Wei Hua's position as an executive Director is HK\$200,000, HK\$40,000 and HK\$40,000 per month respectively, which was determined by the Board with reference to his/her duties and level of responsibilities with the Group.

Dr. Leung Wai Cheung, Mr. Cai Wei Lun and Mr. Wang Jun Sui are the independent non-executive Directors. All of them are under a term of service of one year commencing from the date of their respective appointment or the date of entering into their respective service contract. They are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Articles of Association, provided that the appointment may be terminated by the Company or the Director concerned with a written notice of not less than one month unless both parties agreed otherwise. The remuneration of Dr. Leung Wai Cheung is HK\$5,000 per month, while each of Mr. Cai Wei Lun and Mr. Wang Jun Sui has not received any remuneration since his appointment. Their remuneration will be determined by the Board with reference to their duties, level of responsibilities, remuneration policy of the Company and the prevailing market conditions.

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

11. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was or is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was or is known to the Directors to be pending or threatened by or against any members of the Enlarged Group.

12. EXPERTS' QUALIFICATION AND CONSENT

The following are the qualifications of the experts who have given their opinions and advice which are included in this circular:

Name	Qualification
Cinda International Capital Limited	A corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants
Norton Appraisals Limited	Independent valuer
Nuada Limited	a corporation licensed to carry out type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, none of the above experts has any shareholding, directly or indirectly, in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

As at the Latest Practicable Date, none of the above experts has any interest, direct or indirect, in the promotion of, or in any assets which had been within the two years immediately preceding the issue of this circular acquired or disposed of by or leased to, any member of the Enlarged Group.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/ or its opinion or report in the form and context in which they are included.

None of the above experts has any direct or indirect interest in any assets which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or were proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 December 2009, the date to which the latest published audited financial statements of the Group were made up.

13. 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. Cai Wei Lun and Mr. Wang Jun Sui, who are all independent non-executive Directors, further details of whom are set out below:

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

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

Mr. Wang Jun Sui, aged 54, has years of experience in the business market of the People’s Republic of China. He was a deputy general manager of 光大對外貿易廣東公司 (Guangda External Trade Guangdong Company*).

* *an unofficial English translation*

14. GENERAL

- (a) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The head office and principal office of business of the Company in Hong Kong is at Unit 1006, 10th Floor, Tower One Lippo Centre, 89 Queensway, Hong Kong.
- (c) The branch share registrar of the Company in Hong Kong is Trior Tengis Limited situated at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) The secretary of the Company is Ms. Man Tsz Sai, Lavender, she is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.
- (e) The compliance officer of the Company is Mr. Leung, the Chairman and an executive Director.
- (f) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

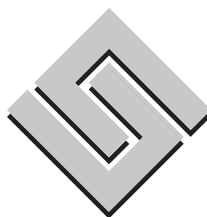
15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Unit 1006, 10th Floor, Tower One Lippo Centre, 89 Queensway, Hong Kong during normal business hours from the date of this circular up to and including 16 August 2010.

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for each of the three years ended 31 December 2009 and the quarterly report of the Company for the three months ended 31 March 2010;
- (c) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular;
- (d) the letter of advice from the Independent Financial Adviser, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" of this circular;
- (e) the accountant's report of the Target BVI, the Target HK and the Target JV as set out in Appendices IIA, IIB and IIC to this circular;
- (f) the report on unaudited pro forma financial information on the Enlarged Group as set out in Appendix III to this circular;
- (g) the valuation report on the Target JV from Norton Appraisals Limited, the text of which is set out in Appendix IV to this circular;

- (h) the letters of consent referred to under the paragraph headed “Experts and consent” in this Appendix;
- (i) a copy of each of the material contracts referred to in the paragraph headed “Material contracts” in this Appendix, including all the cooperation agreements set out in the paragraph headed “Cooperation agreements on innovative lottery sales channels of the Target JV” in the section headed “Letter from the Board” of this circular; and
- (j) the service contracts referred to in the paragraph headed “Directors’ service contracts” in this Appendix.

NOTICE OF EGM



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 16 August 2010 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 (“**Acquisition Agreement**”) dated 13 May 2010 and entered into between Easywin International Holdings Limited, a wholly-owned subsidiary of the Company, as purchaser and Mr. Leung Ngai Man (“**Vendor**”) as vendor in relation to the acquisition (“**Acquisition**”) of one ordinary share of nominal value US\$1.00 in the issued share capital of Pearl Sharp Limited (“**Target**”) at a consideration (“**Consideration**”) of HK\$2,112.5 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 30 July 2010 (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 up to 200,000,000 new shares of HK\$0.24 each in the capital of the Company as Consideration Shares (as defined in the Circular) in accordance with the terms and conditions of the Acquisition Agreement;
 - (c) subject to completion of the Acquisition, the issue of the Promissory Note (as defined in the Circular) as set out in the Circular, on and subject to the terms of the Acquisition Agreement, be and it is hereby approved;

NOTICE OF EGM

- (d) 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 Acquisition 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 Acquisition Agreement) upon the exercise of the conversion rights attaching to the Convertible Bonds be and are hereby approved; and
- (e) 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 Acquisition Agreement, the allotment and issue of the Consideration Shares, the issue of the Promissory Note, 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 Acquisition 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 Acquisition Agreement) as are, in the opinion of the Directors, in the interest of the Company and its shareholders as a whole.”
- (2) “**THAT** Mr. Wang Jun Sui be re-elected as an independent non-executive Director.”

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

Hong Kong, 30 July 2010

As at the date hereof, the board comprised the following Directors:

Executive Directors:

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

Principal place of business in Hong Kong:

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

Independent non-executive Directors:

Leung Wai Cheung
Cai Wei Lun
Wang Jun Sui

NOTICE OF EGM

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.