THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Mining Resources Group Limited, 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.

中國礦業資源集團有限公司*

China Mining Resources Group Limited

(incorporated in Bermuda with limited liability)

(Stock Code : 340)

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF 80% INTEREST IN KING GOLD INVESTMENTS LIMITED

Financial adviser to China Mining Resources Group Limited

Optima Capital Limited

A notice convening the special general meeting of China Mining Resources Group Limited to be held at Room 1306, 13/F., Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong on Monday, 20 April 2009 at 2:30 p.m. is set out on pages 171 to 172 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of China Mining Resources Group Limited in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 48 hours before the time for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

27 March 2009

* *For identification purpose only*

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

"Acquisition"	the proposed acquisition of the Sale Shares by the Company for a total consideration of HK$640,000,000 (subject to adjustment) pursuant to the Agreement
"Agreement"	the sale and purchase agreement dated 22 December 2008 (which is supplemented by a supplemental agreement dated 2 January 2009 and a further supplemental agreement dated 16 March 2009) entered into between the Company, the Vendors and the Guarantors in relation to the Acquisition
"Announcement"	the announcement of the Company dated 7 January 2009 in relation to, among other things, the Acquisition
"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday or a Sunday) on which banks are open for general business in Hong Kong
"BVI"	British Virgin Islands
"China Dahongpao Tea"	China Dahongpao Tea Industrial Company, a company incorporated in Hong Kong and a wholly-owned subsidiary of Desire Star (China) as at the date of the Agreement
"Company"	China Mining Resources Group Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 340)
"Completion"	completion of the Agreement
"Completion Date"	the date on which Completion takes place
"connected persons"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the consideration of HK$640,000,000 (subject to adjustment) payable by the Company for the Acquisition and to be satisfied in the manner as described in this circular
"Consideration Shares"	up to 660,377,358 new Shares (subject to adjustment) to be issued at an issue price of HK$0.212 per Share
"Desire Star"	Desire Star Limited, a company incorporated in Hong Kong which is owned as to 60% by Mr. Ho Yat Sum and as to 40% by Mr. Ho Ho Wai as at the date of the Agreement

"Desire Star (China)"	星願(中國)茶業有限公司 (Desire Star (China) Tea Industrial Co., Ltd.*), a wholly-owned subsidiary of Desire Star prior to the Reorganisation
"Desire Star (HK)"	Desire Star Hong Kong Limited, a company incorporated in Hong Kong as a special purpose vehicle and a wholly-owned subsidiary of King Gold for the purpose of acquiring the entire equity interest of Desire Star (China) from Desire Star as part of the Reorganisation
"Director(s)"	director(s) of the Company
"Enlarged Group"	the Group together with the King Gold Group after Completion
"Group"	the Company and its subsidiaries
"Guaranteed Profit"	has the meaning ascribed thereto in the paragraph headed "Adjustment to the Consideration" in the section headed "The Agreement" in the letter from the Board contained in this circular
"Guarantors"	Mr. Ho Yat Sum and Mr. Ho Ho Wai, being the beneficial owners of Joy Success and Master Long respectively
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Dahongpao Tea"	a company to be incorporated in Hong Kong with its company name containing the word "Dahongpao", and which pursuant to the Reorganisation will be a wholly-owned subsidiary of Desire Star (HK)
"Joy Success"	Joy Success Limited, a company incorporated in the BVI with limited liability which is wholly and beneficially owned by Mr. Ho Yat Sum
"King Gold"	King Gold Investments Limited, a company incorporated in the BVI with limited liability
"King Gold Group"	King Gold and its subsidiaries upon completion of the Reorganisation
"Latest Practicable Date"	24 March 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Master Long"	Master Long Limited, a company incorporated in the BVI with limited liability which is wholly and beneficially owned by Mr. Ho Ho Wai
"PRC"	the People's Republic of China
"Reorganisation"	the reorganisation to be implemented before Completion whereby Desire Star (HK), Desire Star (China) and Hong Kong Dahongpao Tea will become wholly-owned subsidiaries of King Gold
"Sale Shares"	80 shares of US$1.00 each in the capital of King Gold
"SFO"	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"SGM"	the special general meeting of the Company convened to be held on 20 April 2009 at 2:30 p.m. at Room 1306, 13/F., Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong to approve, among other things, the Agreement and the transactions contemplated thereunder
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Vendors"	Joy Success and Master Long
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC

For illustration purposes, figures in RMB in this circular have been translated into HK$ at the exchange rate of RMB1=HK$1.134. Such conversion shall not be construed as a representation that amounts in RMB were or may have been converted into HK$ using such exchange rate or any other exchange rate or at all.

中國礦業資源集團有限公司*
China Mining Resources Group Limited
(incorporated in Bermuda with limited liability)
(Stock Code : 340)

Executive Directors:
Mr. Cai Yuan *(Chairman)*
Dr. You Xian Sheng *(Deputy Chairman and Chief Executive Officer)*
Mr. Wang Hui
Mr. Yeung Kwok Kuen *(Chief Financial Officer)*
Mr. Chen Shou Wu *(Chief Investment Officer)*

Non-executive Director:
Mr. Lam Ming Yung

Independent Non-executive Directors:
Mr. Chan Sze Hon
Mr. Chu Kang Nam
Mr. Goh Choo Hwee
Mr. Lin Xiang Min

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:
Room 1306, 13th Floor
Bank of America Tower
12 Harcourt Road, Admiralty
Hong Kong

27 March 2009

To the Shareholders,

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF 80% INTEREST IN KING GOLD INVESTMENTS LIMITED

INTRODUCTION

On 7 January 2009, the Board announced that the Company entered into the Agreement with the Vendors and the Guarantors, pursuant to which the Company has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares, being 80 shares in King Gold representing 80% of the issued capital of King Gold, for an aggregate consideration of HK$640,000,000 (subject to adjustment).

The Consideration for the Acquisition shall be satisfied as to HK$500,000,000 by payment by the Company in cash and as to HK$140,000,000 by the issue and allotment of the Consideration Shares by the Company at an issue price of HK$0.212 per Share to Master Long. The Consideration and the number of Consideration Shares to be issued are subject to downward adjustment as described in this circular.

* *For identification purpose only*

The Acquisition constitutes a major transaction for the Company under the Listing Rules. The Agreement and the transactions contemplated thereunder including the issue of the Consideration Shares are subject to the approval of the Shareholders at the SGM. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, Mr. Ho Yat Sum and Mr. Ho Ho Wai hold 1,162,000 Shares and 800,000 Shares respectively as at the Latest Practicable Date. The Guarantors and their respective associates are therefore required to abstain from voting on the resolution(s) to approve the Agreement and the transactions contemplated thereunder including the issue of the Consideration Shares.

The purpose of this circular is to provide you with, among other things, (i) details of the Agreement; (ii) financial and other information on the Group; (iii) financial information on the King Gold Group; (iv) unaudited pro forma financial information of the Enlarged Group; and (v) the notice convening the SGM.

THE AGREEMENT

Date

22 December 2008 (supplemented by supplemental agreements dated 2 January 2009 and 16 March 2009)

Parties

(i) the Company, as purchaser;

(ii) Joy Success, as one of the Vendors;

(iii) Master Long, as one of the Vendors;

(iv) Mr. Ho Yat Sum, as one of the Guarantors; and

(v) Mr. Ho Ho Wai, as one of the Guarantors.

The Vendors are investment holding companies. Mr. Ho Yat Sum is the beneficial owner of the entire issued share capital of Joy Success and the founder of Desire Star (China). Mr. Ho Ho Wai is the beneficial owner of the entire issued share capital of Master Long and the son of Mr. Ho Yat Sum. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries and save as disclosed above, the Vendors and their respective beneficial owners (i.e. the Guarantors) are third parties independent of the Company and its connected persons. The Group has not entered into any previous transactions with the Vendors or their respective associates which would otherwise require aggregation pursuant to Rule 14.22 of the Listing Rules.

Assets to be acquired

Joy Success and Master Long each hold 60 shares and 40 shares of King Gold respectively, representing 60% and 40% respectively of the issued share capital of King Gold, as at the date of the Agreement. Pursuant to the Agreement, the Company agreed to acquire the Sale Shares (being a total of 80 shares in the capital of King Gold representing 80% of the issued share capital of King Gold), comprising 60 shares from Joy Success and 20 shares from Master Long. Completion of all the Sale Shares shall take place simultaneously.

The Sale Shares shall be acquired free from liens and encumbrances and together with all rights attached thereto from the date of the Agreement.

Information on the King Gold Group

King Gold is a special purpose vehicle incorporated in the BVI on 18 November 2008. It does not hold any assets and has not undertaken any operations since its date of incorporation.

Pursuant to the Agreement, as one of the conditions precedent to Completion, King Gold will implement the Reorganisation pursuant to which Desire Star (HK) has been incorporated as its wholly-owned subsidiary to acquire the entire issued share capital of Desire Star (China). Desire Star (China) was incorporated in the PRC in October 2001. It is one of the key national agricultural industrialised producers and is principally engaged in the cultivation, production, sale, and research of oolong tea, green tea, jasmine tea, black tea and in particular, WuYi rock-essence tea. As at the date of the Agreement and the Latest Practicable Date, Desire Star (China) held the entire issued share capital of China Dahongpao Tea. China Dahongpao Tea was incorporated in Hong Kong in July 2007 and is at present inactive. During the course of its due diligence on China Dahongpao Tea, the Directors have identified certain registration and filing irregularities with respect to China Dahongpao Tea. As such, the parties to the Agreement have on 16 March 2009 entered into a supplemental agreement, pursuant to which Desire Star (China) shall dispose of its entire issued share capital of China Dahongpao Tea before Completion and Hong Kong Dahongpao Tea will be incorporated as a new wholly-owned subsidiary of Desire Star (HK). Save as disclosed above, there is no adjustment to the terms, including the Consideration, of the Acquisition. Details of the Reorganisation are set out in the paragraph headed "Reorganisation" below.

Desire Star (China) was founded by Mr. Ho Yat Sum after his first taste of the Da Hong Pao (大紅袍) tea in a leisure trip to Wu Yi Shan (武夷山) in 2000. He was impressed by the unique flowery aroma of the Da Hong Pao tea, tranquil environment of Wu Yi Shan and virtuous nature of the tea farmers therein. These factors motivated him to establish Desire Star (China) to produce high quality Da Hong Pao tea so that people in other provinces or overseas countries could have a chance to taste this unique tea from Wu Yi Shan.

The cultivation and production of tea products is located in Wu Yi Shan which is the natural cultural heritage in the PRC, famous not only for the good scenery, but also the tea. There are six Da Hong Pao mother tea plants growing on the Jiu Long Ke cliff of Wu Yi Shan which are over three hundred years old and the Da Hong Pao tea products are also regarded by many people as the best tribute during the Ming and Qing Dynasty. The outstanding characteristic of the Da Hong Pao tea is its pure and mellow taste and special lasting flowery aroma as the Da Hong Pao plants are nourished by exiguous mountain springs and organic moss plants when it grows.

The six Da Hong Pao mother trees were cloned successfully in the early 80s by the scientific researchers of the Wu Yi Shan Tea Research and Development Centre. The cloned plants share the same characteristic as the mother trees. The Da Hong Pao mother trees are recorded as part of the Wu Yi Shan natural and cultural heritage and the Da Hong Pao tea-making craft has also been recorded in the first batch of the PRC's intangible cultural heritage. The Wu Yi Shan Tea Research and Development Centre has the important task of breeding and selecting the famous plants, especially for breeding non-seed Da Hong Pao plant. Desire Star (China) has been cooperating with the Wu Yi Shan Tea Research and Development Centre to develop and maintain conventional techniques for processing and producing Da Hong Pao tea.

In 2007, the aggregate tea planting area of Wu Yi Shan was approximately 100,000 mu. There was only a 7.2% growth in tea planting area from 2003 to 2007. Desire Star (China) has entered into sub-contracting arrangements with local farmers of the tea planting area. Under these arrangements, Desire Star (China) rents the tea-farms from the farmers and has the right to operate the rented tea farms and sell all the produces from the tea farms. Under these various sub-contracting arrangements with the farmers with terms ranging from 5 to 20 years, Desire Star (China) has at present secured the use of a total tea planting area of approximately 7,378 mu up to 2012, approximately 5,178 mu up to 2013, approximately 1,718 mu up to 2021 and approximately 468 mu up to 2023. In addition to the sub-contracting arrangements with farmers, many other local farmers have also been co-operating with Desire Star (China) by selling their produces to Desire Star (China). Through the sub-contracting arrangements and the co-operations with farmers, it is estimated that Desire Star (China) obtains its supply of tea leaves from approximately 29,500 mu of tea planting area. This represents approximately 28% of the total tea planting area of Wu Yi Shan.

Desire Star (China) possesses a production facility which occupies a site area of approximately 22,800 square meters in Wu Yi Shan. This facility comprises a full set of senior processing machines, three junior process plants, and a tea research institute called “Products Development and Management Center”. As the exclusive agent of the government of Wu Yi Shan City for managing and processing the mother tea trees of Da Hong Pao, Desire Star (China) has developed a strict management system concentrating in particular on the quality and sanitation of its products. It has passed the international standard of the European Union and obtained the certificate issued by the Institute for Marketecology in Switzerland, an international agency for inspection, certification and quality assurance of eco-friendly products. Desire Star (China) also has a team of highly experienced tea savants, tea critics and esteemed professionals. Besides these experts, Desire Star (China) has also developed a computer-controlled tea processing system, built automated tea production and refinery line and improved the traditional tea processing technique through the collaboration with the Fujian Agricultural and Forestry University. At present, Desire Star (China) has over 30 trademarks registered in the PRC. The two brand names “Wuyi Star” (“武夷星”) and “Wu Yi” (“武夷”) owned by Desire Star (China) have obtained the accolade of “Famous brand of Fujian” and the products which they are used in relation to have been accredited as the most popular tea product countrywide by the Three Green Project Office of the State Department. In October 2006, Desire Star (China) was licensed to use the words “Special Supplier” of tea to Diao Yu Tai State Guest Hotel on its Da Hong Pao tea products and the tea products were the only products of Fujian to be named as one of the China’s famous brand farm products.

Based on the accountants’ report of the King Gold Group prepared in accordance with Hong Kong Financial Reporting Standards as set out in Appendix II to this circular, the King Gold Group recorded a combined net loss (both before and after tax) of approximately RMB0.73 million (equivalent to approximately HK$0.83 million) for the year ended 31 December 2006. The King Gold Group recorded a combined net profit (both before and after tax) of approximately RMB9.36 million (equivalent to approximately HK$10.61 million) for the year ended 31 December 2007 and approximately RMB24.13 million (equivalent to approximately HK$27.36 million) for the year ended 31 December 2008. The audited combined net assets of the King Gold Group as at 31 December 2008 was approximately RMB107.08 million (equivalent to approximately HK$121.43 million).

The Consideration

The Consideration for the Acquisition is HK$640,000,000 (subject to adjustment as described in the paragraph headed "Adjustment to the Consideration" below) which was/shall be satisfied in the following manner:

(i) within five Business Days from the signing of the Agreement, the Company has paid to the Vendors a refundable cash deposit in the amount of HK$100,000,000 (of which HK$92,000,000 was payable to Joy Success and HK$8,000,000 payable to Master Long);

(ii) within five Business Days from the receipt of the legal opinions and due diligence report as referred to in condition (i)(b) under the paragraph headed "Conditions" below in such form and substance to the satisfaction of the Company, the Company shall pay a further refundable cash deposit in the amount of HK$75,000,000 (of which HK$69,000,000 was payable to Joy Success and HK$6,000,000 payable to Master Long);

(iii) within five Business days from the receipt of the financial due diligence report of the King Gold Group as referred to in condition (i)(c) under the paragraph headed "Conditions" below in such form and substance to the satisfaction of the Company, the Company shall pay a further refundable cash deposit in the amount of HK$75,000,000 (of which HK$69,000,000 was payable to Joy Success and HK$6,000,000 payable to Master Long);

(iv) within five Business Days from Completion, the Company shall pay HK$250,000,000 in cash to Joy Success (or the person designated by Joy Success); and

(v) on the tenth Business Day after the receipt of the audited accounts of the King Gold Group for the year ending 31 December 2009 to the satisfaction of the Company, the Company shall issue and allot 660,377,358 Consideration Shares (subject to adjustment) to Master Long.

The Consideration was arrived at after arm's length negotiations between the parties, taking into account the historical profitability of the King Gold Group as referred to in the paragraph headed "Information on the King Gold Group" above, the growth potential of the business of the King Gold Group, the possible future earnings contribution to the Group and the Guaranteed Profit described in the paragraph headed "Adjustment to the Consideration" below.

The Consideration Shares represent approximately (i) 10.96% of the existing issued share capital of the Company; and (ii) 9.87% of the share capital of the Company as enlarged by the issue of the Consideration Shares.

The issue price of HK$0.212 per Consideration Share represents:

(i) a discount of approximately 4.1% to the closing price of HK$0.221 per Share as quoted on the Stock Exchange on 19 December 2008, being the last trading day of the Shares prior to the date of the Agreement;

(ii) a discount of approximately 6.6% to the average of the closing prices of HK$0.227 per Share as quoted on the Stock Exchange over the last five consecutive trading days up to and including 19 December 2008;

(iii) a discount of approximately 5.4% to the average of the closing prices of HK$0.224 per Share as quoted on the Stock Exchange over the last 10 consecutive trading days up to and including 19 December 2008; and

(iv) a discount of approximately 16.9% to the closing price of HK$0.255 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Consideration Shares, when issued, will rank pari passu with all other Shares in issue as at the date of issue. Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

Adjustment to the Consideration

Pursuant to the Agreement, the Vendors and the Guarantors undertook to procure King Gold to make available the management accounts of the King Gold Group for the year ending 31 December 2009 for audit by a certified public accounting firm appointed by the Vendors and agreed by the Company on or before 28 February 2010; and such audit shall be completed within 2 months after the provision of the management accounts of the King Gold Group. The Vendors and the Guarantors further undertook to the Company that the audited consolidated net profit after tax of the King Gold Group reported under generally accepted accounting principles in Hong Kong will not be less than HK$80,000,000 for the year ending 31 December 2009 (the "Guaranteed Profit"). If the actual audited consolidated net profit after tax of the King Gold Group for the year ending 31 December 2009 (the "Actual Profit") is equal to or more than the Guaranteed Profit, there shall be no adjustment to the Consideration. If the Actual Profit is less than the Guaranteed Profit, the aggregate amount of the Consideration shall be adjusted downwards in accordance with the formula set out below:

$$\text{Adjustment required} = \frac{\text{Guaranteed Profit} - \text{Actual Profit}}{\text{Guaranteed Profit}} \times \text{HK\$640,000,000}$$

Adjusted Consideration = HK$640,000,000 less the adjustment required

Adjusted amount of the Consideration Shares = Adjusted Consideration less HK$500,000,000

In the event the adjustment required as calculated above is equal to or less than HK$140,000,000, the Consideration Shares to be issued by the Company to Master Long shall be the adjusted amount of the Consideration Shares divided by HK$0.212.

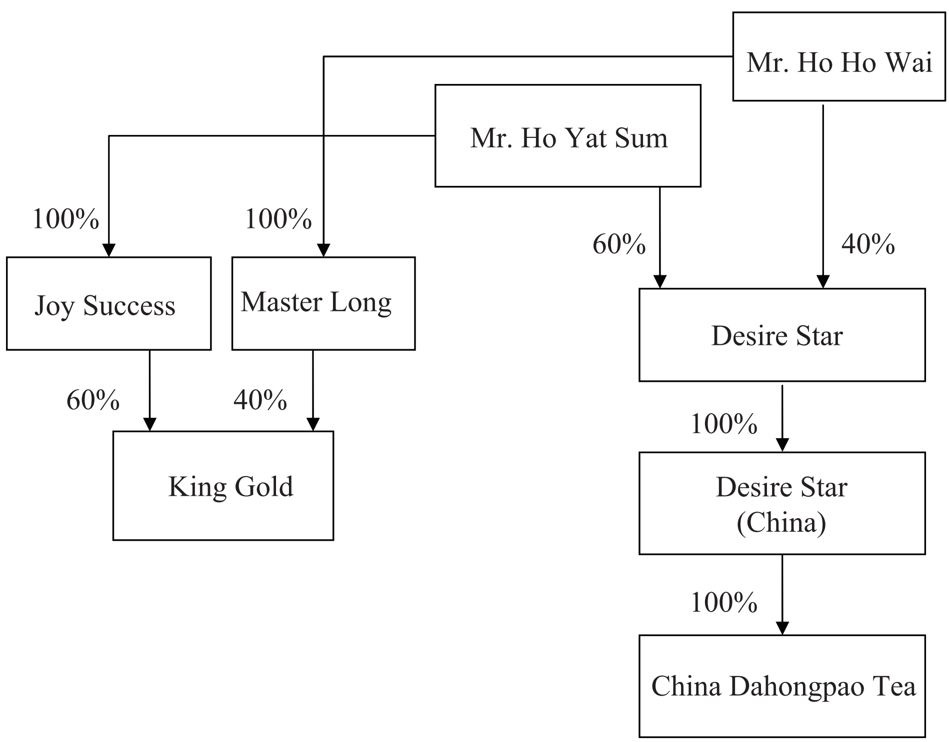
In the event the adjustment as calculated above exceeds HK$140,000,000, then no Consideration Shares will be issued by the Company to Master Long and the Vendors shall be jointly and severally liable, and the Guarantors shall jointly and severally guarantee the performance of the Vendors thereunder, to make up the adjustment amount in excess of HK$140,000,000 in cash to the Company on the tenth Business Day from the receipt of the audited accounts of the King Gold Group for the year ending 31 December 2009 to the satisfaction of the Company.

Reorganisation

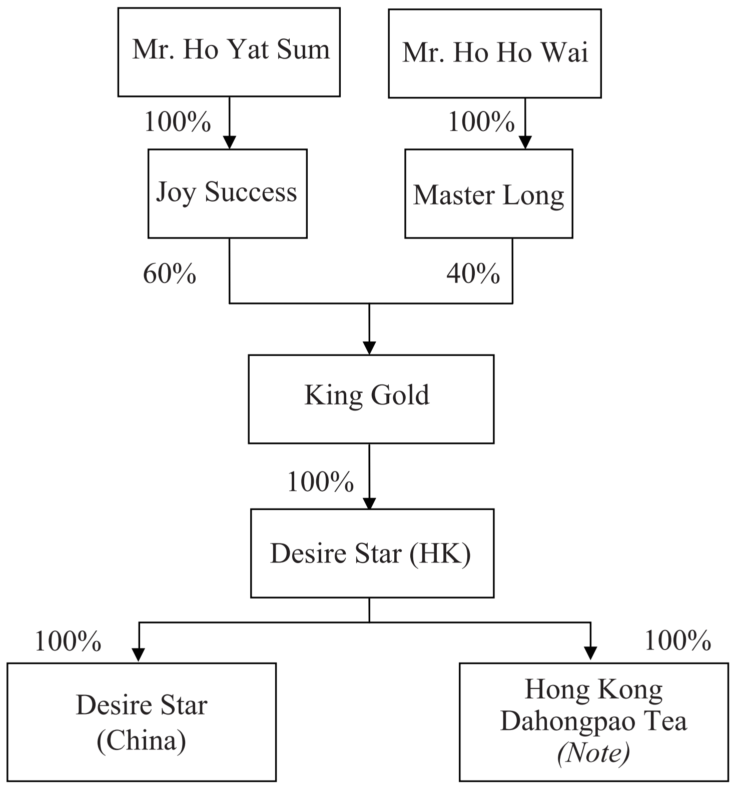
As one of the conditions precedent to the Completion, King Gold will implement the Reorganisation, pursuant to which King Gold has established a special purpose vehicle, namely Desire Star (HK), as its wholly-owned subsidiary on 2 January 2009 for the purpose of acquiring the entire issued share capital of Desire Star (China) from Desire Star. Desire Star is at present owned as to 60% by Mr. Ho Yat Sum and as to 40% by Mr. Ho Ho Wai; and is holding the entire issued share capital of Desire Star (China). As part of the Reorganisation, Desire Star (China) will dispose of its entire shareholding interest in China Dahongpao Tea and Hong Kong Dahongpao Tea will be incorporated as a new wholly-owned subsidiary of Desire Star (HK). Upon completion of the Reorganisation, Desire Star (HK), Desire Star (China) and Hong Kong Dahongpao Tea will become wholly-owned subsidiaries of King Gold.

The following charts set forth the shareholding structures of King Gold and Desire Star before and after the Reorganisation.

Before the Reorganisation



After the Reorganisation



Note: Hong Kong Dahongpao Tea has not yet been incorporated as at the Latest Practicable Date.

Conditions

The Agreement is subject to and conditional upon the fulfillment or waiver of the following conditions:

(i) the Company being satisfied with the results of the due diligence review on the assets, operations, financial positions, sales, prospects and other affairs of the King Gold Group, including but not limited to (a) (if so required by the Company) the receipt by the Company of a legal opinion (in such form and substance to the satisfaction of the Company) issued by lawyers on BVI laws covering matters on, among other things, the due incorporation and subsistence of King Gold; (b) the receipt by the Company of a legal opinion (in such form and substance to the satisfaction of the Company) issued by PRC lawyers covering matters on, among other things, the due establishment and subsistence, the legality of ownership of assets and the business operations of members of the King Gold Group which are established and operating in the PRC such as the status of approvals and licences required; and (c) the receipt of the financial due diligence report on the members of the King Gold Group for the past three years or such other period of time as approved by the Company in such form and substance to the satisfaction of the Company;

(ii) the Agreement and the transactions contemplated thereunder including the allotment and issue of the Consideration Shares having been approved by the Shareholders at a special general meeting of the Company;

(iii) if applicable, the approval of the Bermuda Monetary Authority of the issue of the Consideration Shares by the Company;

(iv) the Listing Committee of the Stock Exchange having granted the listing of and permission to deal in the Consideration Shares;

(v) Desire Star (HK) having been incorporated by King Gold and the Reorganisation having been completed to the satisfaction of the Company, including but not limited to (i) all approvals, consents, permissions and filings required by the relevant government authorities of the PRC or any interested third parties for the acquisition of Desire Star (China) by Desire Star (HK) having been obtained; (ii) the approval certificate of foreign investment enterprise which stipulates Desire Star (HK) as the sole investor of Desire Star (China) having been obtained by Desire Star (China); and (iii) the business license as a wholly foreign owned enterprise having been obtained by Desire Star (China) stipulating the permitted scope of business of Desire Star (China) to the satisfaction of the Company;

(vi) the Guarantors having procured Desire Star to fully pay up the outstanding registered capital of Desire Star (China);

(vii) the due execution by certain existing directors and senior management members of the King Gold Group of service contracts in the form and content satisfactory to the Company for a term of not less than five years;

(viii) the due execution of non-competition undertakings by the Guarantors and certain existing directors and senior management members of the King Gold Group in the form and substance satisfactory to the Company;

(ix) any other conditions precedent as may be imposed by the Company after its due diligence review on the King Gold Group;

(x) all the representations and warranties contained in the Agreement remaining true, accurate and not misleading in all respects; and

(xi) there being no material changes or adverse events on the operations, assets or business or material undisclosed risks of the King Gold Group since 31 December 2007.

The Company shall have the right to waive conditions (i), (vi), (vii), (viii) and (ix). If the above conditions (save for conditions (x) and (xi)) are not fulfilled or waived by 18 June 2009 (or such other later date as the parties may agree) and conditions (x) and (xi) are not fulfilled or waived when the last of the other conditions are fulfilled or waived, the Company is entitled to announce that the Agreement shall lapse and be of no further effect and the parties shall have no obligations to the others save for antecedent breaches. All the deposits which have been paid by the Company (together with interest thereon calculated based on the prime rate announced by The Hongkong and Shanghai Banking Corporation Limited) shall then be refunded to the Company.

Completion shall take place on the third Business Day after the fulfillment or waiver of all the above conditions.

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is a summary of the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the issue of the Consideration Shares, which are prepared on the assumptions that there is no downward adjustment to the Consideration and there would be no changes in the issued share capital of the Company since the date hereof:

	As at the Latest Practicable Date		Immediately after issue of the Consideration Shares	
	Shares	*%*	*Shares*	*%*
Greater Increase Investments Limited *(Note)*	500,000,000	8.30	500,000,000	7.48
Mr. Cai Yuan *(Note)*	8,650,000	0.14	8,650,000	0.13
	508,650,000	8.44	508,650,000	7.61
Mr. Ho Yat Sum	1,162,000	0.02	1,162,000	0.02
Mr. Ho Ho Wai	800,000	0.01	800,000	0.01
Master Long	—	—	660,377,358	9.87
	1,962,000	0.03	662,339,358	9.90
Other public Shareholders	5,516,040,853	91.53	5,516,040,853	82.49
	6,026,652,853	100.00	6,687,030,211	100.00

Note: Greater Increase Investments Limited is wholly and beneficially owned by Mr. Cai Yuan, the Chairman of the Company and an executive Director.

REASONS FOR THE ACQUISITION

The Company is an investment holding company and its subsidiaries are principally engaged in mining and processing of molybdenum, copper and zinc in the PRC.

As disclosed in the 2008 interim report of the Company, the first half of 2008 had been a difficult period for the Group. The quality of mineral resources extracted from Nuoergai Copper Mine located in Inner Mongolia was not satisfactory and the exploration results in certain locations proved not to be commercially viable. As a result, impairment provisions had been made on the related assets. In addition, the operations of the copper and zinc mine of Harbin Songjiang Group had been suspended as the mine is an aged mine which would require attention and care in terms of production safety. On the other hand, the development of the rutile mine located in Shanxi was temporarily suspended due to unfavourable market conditions. As a result, the Group recorded a substantial loss of HK$869.9 million for the six months ended 30 June 2008.

With a view to better utilizing the cash resources and improving the profitability of the Group, the Company has been actively looking for attractive merger and acquisition opportunities in various industries including mining and other natural resources related businesses.

As described in the paragraph headed "Information on the King Gold Group" above, Desire Star (China) is one of the key enterprises of national agricultural producer in the PRC specialising in the cultivation, production, sale and research of Chinese tea products. Desire Star (China) has generated profits and has been exhibiting substantial growth in its business. Its products are recognised in the PRC as premium tea products and are widely distributed throughout the country.

Along with the changing lifestyle of people, the sale of tea bags has begun to grow at an increasing rate around the world. The market share of tea bags in Europe, the United States and Canada has also grown rapidly in recent years. However, the tea bag market in the PRC has not yet been developed and only accounts for a small portion of total sales volume of tea in the PRC tea market. Such significant deviation from the size of tea bag markets in other countries provides an opportunity for Desire Star (China) to build up its market share in the tea bag market for its prestigious Da Hong Pao and Wuyi rock-essence tea. Due to the aforesaid reasons, Desire Star (China) has started producing Da Hong Pao tea bags since February 2008 and will continue to devote effort in capturing more market share in the tea bag market. The Company, upon Completion, is capable of entering into the rapidly growing and lucrative tea market in the PRC with network, expertise and materials all in place.

After Completion, King Gold will become a 80% subsidiary of the Company and the accounts of the King Gold Group shall be consolidated into the accounts of the Group. Master Long will remain a 20% shareholder of King Gold and the business of the King Gold Group will be managed and operated by the existing management of Desire Star (China) including Mr. Ho Yat Sum, who possesses strong expertise in and devotion to the tea business, under the control of the Board.

Having considered the profitability of Desire Star (China) and the prospects of the King Gold Group in the tea industry, the Directors consider that the Acquisition represents a good opportunity for the Group to diversify its investments into other natural resources related industry to broaden the revenue base of the Group. The Directors (including the independent non-executive Directors) are of the view that the terms of the Agreement (including the issue price of the Consideration Shares) are fair and reasonable and that the Acquisition is in the interests of the Company and its Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, King Gold will become a 80% wholly-owned subsidiary of the Company and the results, assets and liabilities of the King Gold Group would be consolidated into the financial statements of the Group.

Set out in Appendix III to this circular is the unaudited pro forma financial information of the Enlarged Group which illustrates the financial effect of the Acquisition on the assets and liabilities of the Group assuming Completion had taken place on 30 June 2008.

Based on the unaudited pro forma consolidated balance sheet in Appendix III to this circular, the total assets of the Group would increase by approximately 3.70% from approximately HK$6,862.35 million to approximately HK$7,116.32 million; and its total liabilities would increase by approximately 3.15% from approximately HK$1,783.08 million to approximately HK$1,839.31 million, as a result of the Acquisition. The Directors consider that the Acquisition will contribute to the revenue and earning base of the Enlarged Group but the quantification of such contribution will depend on the future performance of the King Gold Group.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

At present, the Group is principally engaged in mining and processing of molybdenum, copper and zinc in the PRC. Following the disposal of the entire interest in Cell Therapy Technologies Centre Limited, the Group has streamlined its business to concentrate on mining operations. However, due to the significant fall of commodity prices in the global commodity market in the year 2008, unsatisfactory performance of the Group's mining operation in Nuoergai Copper Mine located in Inner Mongolia and suspension of operation of the copper and zinc mine of the Harbin Songjiang Group, the Group has recorded a substantial loss of HK$869.9 million for the six months ended 30 June 2008 as disclosed in the 2008 interim report of the Company. In view of the growth potential of the business of Desire Star (China) and the increasing demand of the sale of tea bags, the Company, upon Completion, is capable of entering into the rapidly growing and lucrative tea market in the PRC with network, expertise and materials all in place which would improve the profitability of the Group. The Board is also of the view that the Acquisition represents an opportunity for the Group to utilise its resources to expand its investments and diversify its source of income from its existing mining business.

Despite the financial crisis and the business downturn, the Directors are optimistic about the performance of the Group as the Group's business is further diversified to the business of cultivation, research, production and sale of Chinese tea products.

SGM

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules which requires approval by the Shareholders at the SGM. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Mr. Ho Yat Sum and Mr. Ho Ho Wai hold 1,162,000 Shares and 800,000 Shares respectively as at the Latest Practicable Date. The Guarantors and their respective associates are therefore required to abstain from voting on the resolution(s) to approve the Agreement and the transactions contemplated thereunder including the issue of the Consideration Shares.

A SGM will be held to consider and, if thought fit, pass the resolution(s) to approve the Agreement and the transactions contemplated thereunder including the issue and allotment of the Consideration Shares.

A form of proxy for use by the Shareholders at the SGM is enclosed with this circular. To be valid, the form of proxy must be completed in accordance with the instructions printed thereon and returned, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority, to the Company's branch share register in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting at the SGM if you so wish.

Pursuant to the amended Rule 13.39(4) of the Listing Rules which took effect on 1 January 2009, any vote of shareholders at the SGM must be taken by poll. Accordingly, the Company will procure that the chairman of the SGM shall demand voting on the resolution(s) set out in the notice of SGM be taken by way of poll.

RECOMMENDATION

The Directors consider that the Agreement and the transactions contemplated thereunder are in the best interests of the Company and the Shareholders as a whole and accordingly recommend that all Shareholders should vote in favour of the ordinary resolution(s) in the notice of SGM.

As Completion is subject to the fulfillment of a number of conditions precedent, the Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares.

ADDITIONAL INFORMATION

Your attention is drawn to the further information contained in the appendices to the circular.

Yours faithfully,
For and on behalf of the Board
China Mining Resources Group Limited
Cai Yuan
Chairman

1. FINANCIAL SUMMARY

Set out below is a summary of the audited financial information of the Group for the three years ended 31 December 2005, 2006 and 2007 extracted from the Company's relevant annual reports, and the unaudited financial information of the Group for the six months ended 30 June 2008 extracted from the Company's interim report.

	For the year ended 31 December			For the 6 months ended 30 June
	2005	**2006**	**2007**	**2008**
	(audited)	**(audited)**	**(audited)**	**(unaudited)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS				
Turnover				
Continuing operations	15,634	17,366	696,416	287,029
Discontinued operations	175,204	138,207	—	—
	190,838	155,573	696,416	287,029
Profit/(loss) before taxation				
Continuing operations	(25,134)	(20,558)	251,700	(837,991)
Discontinued operations	(30,725)	12,267	—	—
	(55,859)	(8,291)	251,700	(837,991)
Taxation credit/(charge)				
Continuing operations	(75)	366	(27,308)	(31,930)
Discontinued operations	734	(1,317)	—	—
	659	(951)	(27,308)	(31,930)
Profit/(loss) for the year				
Continuing operations	(25,209)	(20,192)	224,392	(869,921)
Discontinued operations	(29,991)	10,950	—	—
	(55,200)	(9,242)	224,392	(869,921)
Attributable to:				
Equity shareholders of the Company	(55,200)	(8,244)	212,297	(465,239)
Minority interests	—	(998)	12,095	(404,682)
	(55,200)	(9,242)	224,392	(869,921)

	As at 31 December			As at 30 June
	2005	**2006**	**2007**	**2008**
	(audited)	**(audited)**	**(audited)**	**(unaudited)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	297,041	2,172,179	7,439,339	6,862,345
Total liabilities	(69,614)	(239,759)	(1,786,305)	(1,783,075)
NET ASSETS	227,427	1,932,420	5,653,034	5,079,270
REPRESENTED BY:				
Equity attributable to shareholders of the Company	227,427	1,121,572	3,992,892	3,722,840
Minority interests	—	810,848	1,660,142	1,356,430
TOTAL EQUITY	227,427	1,932,420	5,653,034	5,079,270

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

Set out below are the audited consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity and consolidated cash flow statement, together with the notes to the financial statements of the Group as extracted from the annual report of the Company for the year ended 31 December 2007. References to page numbers in this section are to the page numbers of such annual report of the Company.

Consolidated income statement
For the year ended 31 December 2007

	Note	**2007** *HK$'000*	**2006** *HK$'000*
Continuing operations			
Turnover	*3,12*	696,416	17,366
Cost of sales		(501,117)	(8,060)
Gross profit		195,299	9,306
Other revenue	*4*	26,039	4,250
Other net income/(loss)	*4*	279,519	(467)
Selling expenses		(9,850)	(4,276)
Administrative expenses		(223,971)	(20,802)
Impairment loss of goodwill		—	(7,400)
Profit/(loss) from operations		267,036	(19,389)
Finance costs	*5(a)*	(15,297)	(1,169)
Share of losses of jointly controlled entities	*18*	(39)	—
Profit/(loss) before taxation	*5*	251,700	(20,558)
Income tax	*6(a)*	(27,308)	366
Profit/(loss) for the year from continuing operations		224,392	(20,192)
Discontinued operations			
Profit for the year from discontinued operations	*9(a)*	—	10,950
Profit/(loss) for the year		224,392	(9,242)

	Note	2007 HK$'000	2006 HK$'000
Attributable to:			
Equity shareholders of the Company	10	212,297	(8,244)
Minority interests		12,095	(998)
Profit/(loss) for the year		224,392	(9,242)
Earnings/(loss) per share — basic	11(a)		
From continuing and discontinued operations		3.9 cents	(0.29) cents
From continuing operations		3.9 cents	(0.67) cents
From discontinued operations		N/A	0.38 cents
Earnings/(loss) per share — diluted	11(b)		
From continuing and discontinued operations		3.9 cents	(0.29) cents
From continuing operations		3.9 cents	(0.67) cents
From discontinued operations		N/A	0.38 cents

Consolidated balance sheet
At 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Fixed assets	13(a)		
— Property, plant and equipment		460,609	4,432
— Interests in leasehold land held for own use under operating leases		316,658	—
Intangible assets	14	4,808,088	1,694,615
Construction in progress	15	87,496	—
Goodwill	16	8,200	8,200
Interest in jointly controlled entities	18	—	—
Other receivables	20(a)	92,246	—
Deferred tax assets	29(b)	1,514	366
		5,774,811	1,707,613
Current assets			
Inventories	19	46,223	430
Trade and other receivables	20(b)	370,711	15,049
Cash and cash equivalents	21	1,247,594	449,087
		1,664,528	464,566
Current liabilities			
Trade and other payables	22	256,130	22,517
Deferred income	23(a)	53,814	34,839
Bank loans	25	127,467	—
Other loans	26	1,067	—
Loans from minority shareholders	24	150,500	150,500
Current taxation	29(a)	184,261	—
		773,239	207,856
Net current assets		891,289	256,710
Total assets less current liabilities		6,666,100	1,964,323

	Note	2007 HK$'000	2006 HK$'000
Non-current liabilities			
Other payables	*30*	116,986	31,903
Deferred income	*23(b)*	79,976	—
Bank loans	*25*	85,333	—
Other loans	*26*	4,576	—
Deferred tax liabilities	*29(b)*	726,195	—
		1,013,066	31,903
NET ASSETS		5,653,034	1,932,420
CAPITAL AND RESERVES	*31*		
Share capital		602,665	472,078
Reserves		3,390,227	649,494
Total equity attributable to equity shareholders of the Company		3,992,892	1,121,572
Minority interests		1,660,142	810,848
TOTAL EQUITY		5,653,034	1,932,420

Balance sheet
At 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	13(b)	1,109	426
Investments in subsidiaries	17	2,735,563	823,231
Interest in jointly controlled entities	18	39	—
		2,736,711	823,657
Current assets			
Trade and other receivables	20	49,690	15,129
Cash and cash equivalents	21	695,932	266,813
		745,622	281,942
Current liabilities			
Trade and other payables	22	21,578	5,898
Net current assets		724,044	276,044
NET ASSETS		3,460,755	1,099,701
CAPITAL AND RESERVES	31(b)		
Share capital		602,665	472,078
Reserves		2,858,090	627,623
TOTAL EQUITY		3,460,755	1,099,701

Consolidated statement of changes in equity

For the year ended 31 December 2007

		Attributable to equity shareholders of the Company									
		Share capital	Share premium	Contributed surplus	Capital reserve	Exchange reserve	Statutory surplus reserve	Accumulated losses	Subtotal	Minority interests	Total
		(Note 31(c)(i))	*(Note 31(d)(i))*	*(Note 31(d)(ii))*	*(Note 31(d)(v))*	*(Note 31(d)(iii))*	*(Note 31(d)(iv))*				
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006		246,481	177,179	152,150	2,373	—	—	(350,756)	227,427	—	227,427
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong		—	—	—	—	9,631	—	—	9,631	8,036	17,667
Net loss for the year		—	—	—	—	—	—	(8,244)	(8,244)	(998)	(9,242)
Shares issued under:											
— purchase of net assets	*31(c)(ii)*	108,148	324,444	—	—	—	—	—	432,592	—	432,592
— share placing	*31(c)(iii)*	115,000	345,000	—	—	—	—	—	460,000	—	460,000
— share option scheme	*31(c)(iv)*	2,449	3,842	—	(2,373)	—	—	—	3,918	—	3,918
Share issue expenses		—	(3,752)	—	—	—	—	—	(3,752)	—	(3,752)
Purchase of net assets	*32(b)*	—	—	—	—	—	—	—	—	795,414	795,414
Capital contribution from a minority shareholder		—	—	—	—	—	—	—	—	8,396	8,396
At 31 December 2006		472,078	846,713	152,150	—	9,631	—	(359,000)	1,121,572	810,848	1,932,420

	Note	Share capital (Note 31(c)(i)) HK$'000	Share premium (Note 31(d)(i)) HK$'000	Contributed surplus (Note 31(d)(ii)) HK$'000	Capital reserve (Note 31(d)(v)) HK$'000	Exchange reserve (Note 31(d)(iii)) HK$'000	Statutory surplus reserve (Note 31(d)(iv)) HK$'000	Accumulated losses HK$'000	Subtotal HK$'000	Minority interests HK$'000	Total HK$'000
		Attributable to equity shareholders of the Company									
At 1 January 2007		472,078	846,713	152,150	—	9,631	—	(359,000)	1,121,572	810,848	1,932,420
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong		—	—	—	—	151,602	—	—	151,602	89,451	241,053
Net profit for the year		—	—	—	—	—	—	212,297	212,297	12,095	224,392
Shares issued under share placing	*32(c)(iii)*	130,587	2,324,452	—	—	—	—	—	2,455,039	—	2,455,039
Share issue expenses	*32(c)(iii)*	—	(90,594)	—	—	—	—	—	(90,594)	—	(90,594)
Acquisition of subsidiaries	*32(a)(i)*	—	—	—	—	—	—	—	—	750,373	750,373
Equity settled share-based transaction		—	—	—	142,976	—	—	—	142,976	—	142,976
Dividend paid to minority shareholders		—	—	—	—	—	—	—	—	(2,625)	(2,625)
Transfer to statutory surplus reserve		—	—	—	—	—	26,372	(26,372)	—	—	—
At 31 December 2007		602,665	3,080,571	152,150	142,976	161,233	26,372	(173,075)	3,992,892	1,660,142	5,653,034

Consolidated cash flow statement
For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Operating activities			
Profit/(loss) before taxation			
— From continuing operations		251,700	(20,558)
— From discontinued operations		—	12,267
		251,700	(8,291)
Adjustments for:			
— Valuation gain on investment properties		—	(15,794)
— Negative goodwill		(281,622)	—
— Government grants		(1,248)	—
— Amortisation of land lease premium		3,047	—
— Amortisation of intangible assets		85,237	—
— Depreciation		13,084	1,369
— Impairment loss on trade and other receivables		1,387	877
— Impairment of goodwill		—	7,400
— Finance costs		15,297	3,645
— Dividend income from trading securities		—	(182)
— Interest income		(24,782)	(4,502)
— Share of losses of jointly controlled entities		39	—
— Net foreign exchange gain		(13)	—
— Net gain/(loss) on disposal of property, plant and equipment		(3,640)	18
— Equity-settled share-based payment expenses		142,976	—
Operating profit/(loss) before changes in working capital		201,462	(15,460)
Decrease/(increase) in inventories		288,783	(55)
(Increase)/decrease in trade and other receivables		(116,605)	7,601
Decrease in trading securities		—	2,268
Increase/(decrease) in trade and other payables		40,868	(26,831)
Increase in deferred income		18,975	13,330
Cash generated from/(used in) operations		433,483	(19,147)
Tax paid			
— PRC income tax paid		(54,451)	(568)
Net cash generated from/(used in) operating activities		379,032	(19,715)

	Note	2007 HK$'000	2006 HK$'000
Investing activities			
Payment for interest in jointly controlled entities		(39)	—
Proceeds from disposal of a subsidiary		534	—
Payment for construction in progress		(84,474)	—
Proceeds from disposal of fixed assets		24,786	—
Payment for intangible assets		(53)	—
Payment for acquisition of subsidiaries, net of cash acquired	*32(a)*	(1,788,728)	—
Purchase of net assets, net of cash acquired	*32(b)*	—	(215,559)
Payment for purchase of fixed assets		(44,069)	(1,836)
Payment for exploration and evaluation assets		(5,952)	—
Interest received		24,782	4,502
Dividends received from trading securities		—	182
Net cash used in investing activities		(1,873,213)	(212,711)
Financing activities			
Repayment of amount due from a minority shareholder		—	14,204
Proceeds from loans from minority shareholders		—	150,500
Capital injection from a minority shareholder		—	8,396
Proceeds from shares issued under placing		2,455,039	460,000
Proceeds from shares issued under share options scheme		—	3,918
Payment of transaction costs on issue of shares		(90,594)	(3,752)
Repayment of obligation under a finance lease		—	(117)
Repayment of bank loan		(63,680)	(32,910)
Proceeds from new other loan		4,576	—
Increase in pledged bank deposits		—	(9,317)
Decrease in pledged deposits in financial institutions		—	8,412
Interest paid		(8,925)	(2,479)
Net cash generated from financing activities		2,296,416	596,855
Net increase in cash and cash equivalents		802,235	364,429
Cash and cash equivalents at 1 January		449,087	83,757
Effect of foreign exchange rate changes		(3,728)	901
Cash and cash equivalents at 31 December	*21*	1,247,594	449,087

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1. Significant accounting policies

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in jointly controlled entities.

The measurement basis used in the preparation of the financial statements is the historical cost basis. The functional currencies of the Company and its subsidiaries in the People’s Republic of China (the “PRC”) are Hong Kong dollars and Renminbi respectively. For the purposes of presenting the consolidated financial statements, the Group adopted Hong Kong dollars as its presentation currency.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 37.

(c) Subsidiaries and minority interests

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

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

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 1(o) or (p) depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(l)).

(d) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the jointly controlled entity's net assets, unless it is classified as held for sale. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in jointly controlled entities recognised for the year (see notes 1(e) and (l)).

When the Group's share of losses exceeds its interest in the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. For this purpose, the Group's interest in the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's balance sheet, its investments in jointly controlled entities are stated at cost less impairment losses (see note 1(l)).

(e) ***Goodwill***

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(l)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

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

(f) ***Other investments in equity securities***

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries and jointly controlled entity, are as follows:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) ***Investment properties***

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(k)) to earn rental income and/or for capital appreciation. These include land held for a currently undermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(u)(iii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(k)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(k).

(h) ***Property, plant and equipment***

Property, plant and equipment are stated in the consolidated balance sheet at cost less accumulated depreciation and impairment losses (see note 1(l)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(w)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

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

— Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 40 years after the date of completion.

—	Leasehold improvements	5 years or over the unexpired terms of the lease, whichever is shorter
—	Plant and machinery	12 — 14 years
—	Furniture, fixtures and equipment	5 — 10 years
—	Motor vehicles	5 — 10 years

Included in property, plant and equipment are mining shafts located at the mining site. Depreciation is provided to write off the cost of mining shafts using the units of production method based on the proven and probable mineral reserves.

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

(i) Construction in progress

Construction in progress represents property, plant and equipment under construction and equipment pending installation and is stated at cost less impairment losses (see note 1(l)). Cost comprises direct costs of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are complete.

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

(j) Intangible assets (other than goodwill)

(i) Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment losses (see note 1(l)). The mining rights are amortised using the units of production method based on the proven and probable mineral reserves.

(ii) Exploration rights

Exploration rights are stated at cost less accumulated amortisation and impairment losses (see note 1(l)). The exploration rights are amortised on a straight-line basis over the respective periods of the rights.

(iii) Exploration and evaluation assets and mining development assets

Exploration and evaluation assets are stated at cost less impairment losses (see note 1(l)). Exploration and evaluation assets include exploration and development costs.

Exploration and development costs include expenditures incurred in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and expenditures incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure during the initial exploration stage is written off as incurred.

When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and development costs capitalised are transferred to mining development assets and amortised using the units of production method based on the proven and probable mineral reserves. If any project is abandoned during the exploration and evaluation stage, the related exploration and evaluation assets are written off to profit or loss.

(k) Leased assets

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

(i) Classification of assets leased to the Group

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

— property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(g)).

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance assets, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(l). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(l) Impairment of assets

(i) Impairment of trade and other receivables

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

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

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

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

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

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

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

(ii) Impairment of other assets

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

— property, plant and equipment;

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

— intangible assets;

— investments in subsidiaries and jointly controlled entity; and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(l)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(m) Inventories

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

Cost is calculated using the first-in, first-out method and the weighted average cost formula for cord blood storage and mining operations respectively, and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment losses for bad and doubtful debts (see note 1(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment losses for bad and doubtful debts (see note 1(l)).

(o) Interest-bearing borrowings

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

(p) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(t)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Cash and cash equivalents

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

(r) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

Contributions to appropriate local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(ii) Share-based payments

The fair value of share options or other equity instruments granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value of share options is measured at the grant date using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The fair value of other equity instruments is measured at the grant date based on market prices if available, taking into account the terms and conditions upon which those equity instruments were granted. If market prices are not available, the fair value of equity instruments is estimated using a valuation technique, which is consistent with generally accepted valuation methodologies for pricing financial instruments and incorporate all factors and assumptions that knowledge, willing market participants would consider in setting the price. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options or equity instruments, the total estimated fair value of the options or equity instruments is spread over the vesting period, taking into account the probability that the options or equity instruments will vest.

During the vesting period, the number of share options or other equity instruments that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options or equity instruments that vest (with a corresponding adjustment to the share option reserve or capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option or equity instruments is exercised (when it is transferred to the share premium account) or the option or equity instruments expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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

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

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

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

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

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

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

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

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

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

  — the same taxable entity; or

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

(t) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(t)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(t)(iii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 1(t)(iii).

(iii) Other provisions and contingent liabilities

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

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

(u) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Processing, storage and enrolment fees

Processing and storage fees are recognised when services are rendered. Enrolment fees are recognised upon the signing of the enrolment contract.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Dividends

— Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

— Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(v) Interest income

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

(v) Translation of foreign currencies

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

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

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(w) Borrowing costs

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

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

(x) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

— the post-tax profit or loss of the discontinued operation; and

— the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(y) Related parties

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

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

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

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

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

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

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

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

(z) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

(aa) Deferred income

(i) Receipt in advance for the provision of storage services

Receipt in advance for the provision of storage services are recognised as deferred income in the balance sheet. The amount is amortised over the remaining service period.

(ii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in profit or loss as revenue on a systematic basis over the useful life of the asset.

(ab) Equity-settled share-based payment transactions

For equity-settled share-based payment transactions, the goods or services received are recognised at fair value with a corresponding increase in equity, unless fair value cannot be estimated reliably. If the fair value of the goods or services received cannot be estimated reliably, their values are indirectly measured by reference to the fair value of the equity instruments granted.

Share-based payment in respect of employee benefits is dealt with in accordance with the accounting policy set out in note 1(r)(ii).

2. Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in note 33.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 31(f).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 41).

3. Turnover

The principal activities of the Group are mining operations and processing and storage of cord blood.

Turnover represents the sales value of goods supplied to customers less returns, discounts and value added taxes during the year. Turnover recognised during the year may be analysed as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Continuing operations:		
Processing and storage of cord blood	21,461	17,366
Mining operations		
Sales of:		
— Molybdenum	551,225	—
— Copper	97,298	—
— Zinc	18,295	—
— Others	8,137	—
	674,955	—
	696,416	17,366
Discontinued operations: *(note 9)*		
Sales of trading securities	—	116,234
Dividend income from trading securities	—	182
Sales of pharmaceutical and chemical products	—	13,995
Rental income	—	7,796
	—	138,207
	696,416	155,573

4. Other revenue and net income

	2007	2006
	HK$'000	*HK$'000*
Other revenue		
Continuing operations:		
Bad debt recovery	—	49
Interest income on bank deposits	24,782	4,128
Government grants *(note 23(b))*	1,248	—
Others	9	73
	26,039	4,250
Discontinued operations: ***(note 9)***		
Bad debt recovery	—	167
Interest income on bank deposits	—	240
Interest income on securities accounts	—	134
	—	541
	26,039	4,791
Other net income/(loss)		
Continuing operations:		
Negative goodwill *(note 32(a)(i))*	281,622	—
Net foreign exchange loss	(5,981)	(449)
Sales of scrap materials	238	—
Net gain/(loss) on disposal of property, plant and equipment	3,640	(18)
	279,519	(467)
Discontinued operations: ***(note 9)***		
Net foreign exchange loss	—	(28)

5. Profit/(loss) before taxation

Profit/(loss) before taxation is arrived at after charging/(crediting):

	2007	**2006**
	HK$'000	*HK$'000*
(a) Finance costs:		
Continuing operations:		
— Finance charges on obligation under a finance lease	—	3
— Interest expense on financial liabilities measured at amortised cost	6,372	1,166
— Interest on bank loan wholly repayable within five years	8,925	—
	15,297	1,169
Discontinued operations: ***(note 9)***		
— Interest on bank loan wholly repayable within five years	—	1,978
— Interest paid for margin financing	—	498
	—	2,476
	15,297	3,645
(b) Staff costs (excluding directors' fees):		
Continuing operations:		
— Salaries, wages and other benefits	43,846	8,001
— Staff welfare	1,962	—
— Contributions to defined contribution retirement plan	5,202	208
— Equity-settled share-based payment expenses	142,976	—
	193,986	8,209
Discontinued operations:		
— Salaries, wages and other benefits	—	299
— Contributions to defined contribution retirement plan	—	18
	—	317
	193,986	8,526

	2007	2006
	HK$'000	*HK$'000*
(c) Other items:		
Continuing operations:		
— Auditors' remuneration	4,856	1,436
— Depreciation of property, plant and equipment	13,084	1,255
— Operating lease charges		
— land and buildings	4,273	3,084
— office equipment	—	17
— Impairment losses on trade and other receivables	1,387	877
— Amortisation		
— land lease premium	3,047	—
— intangible assets	85,237	—
— Environmental costs	200	—
Discontinued operations:		
— Auditors' remuneration	—	42
— Depreciation of property, plant and equipment	—	114
— Rentals receivable from investment properties less direct outgoings of $2,812,000	—	(4,984)

6. Income tax in the consolidated income statement

(a) Continuing operations:

(i) Taxation in the consolidated income statement represents:

	2007	2006
	HK$'000	*HK$'000*
Current tax — PRC Enterprise Income Tax		
Provision for the year	98,383	—
Deferred tax		
Origination and reversal of temporary differences	(71,075)	(366)
Tax charge/(credit)	27,308	(366)

The provision for PRC Enterprise Income Tax has been calculated based on the estimated taxable income at a rate of 33% during the year.

No provision has been made for Hong Kong Profits Tax as the companies engaged in the continuing operations did not earn any assessable profits during both years.

(ii) Reconciliation between tax charge/(credit) and accounting profit/(loss) at applicable tax rates:

	2007	2006
	HK$'000	*HK$'000*
Profit/(loss) before taxation	251,700	(20,558)
Notional tax charge/(credit) on profit/(loss) before taxation, calculated at the rate applicable to the profits in the tax jurisdiction concerned	67,969	(3,209)
Tax effect of non-taxable income	(73,111)	(728)
Tax effect of non-deductible expenses	32,450	3,935
Tax effect of prior year's unrecognised tax losses recognised in current year	—	(364)
Actual tax charge/(credit)	27,308	(366)

(b) Discontinued operations: (note 9)

(i) Taxation in the consolidated income statement represents:

	2007	2006
	HK$'000	*HK$'000*
Current tax — PRC Enterprise Income Tax		
Provision for the year	—	512
Deferred tax		
Origination and reversal of temporary differences	—	805
Tax charge	—	1,317

The provision for PRC Enterprise Income Tax has been calculated based on the estimated taxable income at the appropriate rates of taxation ruling in the PRC.

No provision has been made for Hong Kong Profits Tax as the companies engaged in the discontinued operations either had no assessable profits in 2006 or had sufficient tax losses brought forward from previous year to fully set off the assessable profits.

(ii) Reconciliation between tax charge and accounting profit at applicable tax rates:

	2007	2006
	HK$'000	*HK$'000*
Profit before taxation	—	12,267
Notional tax charge on profit before taxation, calculated at the rate applicable to the profits in tax jurisdictions concerned	—	1,763
Tax effect of non-taxable income	—	(2,484)
Tax effect of non-deductible expenses	—	892
Tax effect of unused tax losses not recognised	—	1,159
Tax effect of prior year's unrecognised tax losses utilised in current year	—	(13)
Actual tax charge	—	1,317

(c) New Tax Law of the PRC

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress promulgated the Corporate Income Tax Law of the PRC ("the New Tax Law"), which became effective on 1 January 2008. Further, on 6 December 2007, the State Council released the Implementation Rules to the Corporate Income Tax Law ("the Implementation Rules"). According to the New Tax Law, from 1 January 2008, the applicable corporate income tax rates for enterprises in the PRC will be reduced from 33% to 25%. Subsidiaries of the Group incorporated in the PRC except for the entity described below will be subject to corporate income tax rate of 25%, effective on 1 January 2008.

Any unutilised tax holidays will continue until expiry and tax holidays which have not commerced due to losses in prior years are deemed to have started from 1 January 2008, even if the entity is not yet reporting a profitable year. In view of the new regulations, Shanxi Shenli Aerospace Titanium Company Limited's tax holidays commenced on 1 January 2008.

The enactment of the New Tax Law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

Pursuant to the New Tax Law and its implementation rules, dividends payable to foreign investors are subject to a 10% withholding tax, which may be reduced if the foreign jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. Pursuant to a tax treaty between the PRC and Hong Kong and the grandfathering arrangement, the investment holding companies established in Hong Kong will be subject to a reduced withholding tax rate of 5% on dividends it receives from its PRC subsidiaries and dividends receivable by the Group from subsidiaries established in the PRC in respect of their undistributed profits prior to 31 December 2007 are exempted from withholding tax.

7. Directors' remuneration

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

	Resigned on	Appointed on	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Sub-total	Share-based payments *(Note)*	2007 Total
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Chairman								
Cai Yuan			—	480	24	504	1,223	1,727
Executive directors								
Dong Wenxue	31 January 2008	5 July 2007	—	2,669	2	2,671	38,709	41,380
Wang Hui		5 July 2007	—	1,338	2	1,340	9,351	10,691
Yeung Kwok Kuen		17 January 2007	—	1,071	54	1,125	19,075	20,200
Chen Shou Wu		21 December 2007	—	43	2	45	5,212	5,257
Wu King Shiu Kelvin	31 January 2008	11 June 2007	—	—	—	—	38,874	38,874
Luk Kin Peter Joseph	6 July 2007		—	—	—	—	—	—
You Xian Sheng		31 January 2008	—	—	—	—	—	—
Non-executive directors								
Wu King Shiu Kelvin		31 January 2008	—	—	—	—	—	—
Lam Ming Yung		8 February 2007	83	—	—	83	—	83
Chan Siu Tat		5 December 2007	9	—	—	9	1,223	1,232
Independent non-executive directors								
Chan Sze Hon		5 December 2007	9	—	—	9	—	9
Goh Choo Hwee		5 December 2007	9	—	—	9	—	9
Chu Kang Nam		16 May 2007	67	—	—	67	1,223	1,290
Wong Hon Sum	5 December 2007	8 January 2007	80	—	—	80	1,223	1,303
Lam Ming Yung	8 February 2007	8 January 2007	5	—	—	5	1,223	1,228
Lee Kwan Hung	7 February 2007		6	—	—	6	—	6
Chan Siu Tat	5 December 2007		81	—	—	81	—	81
Tang Tin Sek	16 May 2007 (retired)		22	—	—	22	—	22
Lin Xiang Min		31 January 2008	—	—	—	—	—	—
			371	5,601	84	6,056	117,336	123,392

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Sub-total	Share-based payments *(Note)*	2006 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Chairman						
Cai Yuan	—	1,140	46	1,186	—	1,186
Executive directors						
Luk Kin Peter Joseph	—	1,100	57	1,157	—	1,157
Yeung Kwok Kuen	—	—	—	—	—	—
Non-executive director						
Lam Ming Yung	—	—	—	—	—	—
Independent non-executive directors						
Tang Tin Sek	240	—	—	240	—	240
Lee Kwan Hung	240	—	—	240	—	240
Poon Chiu Kwok (resigned on 8 November 2006)	165	—	—	165	—	165
Chan Siu Tat	7	—	—	7	—	7
Wong Hon Sum	—	—	—	—	—	—
	652	2,240	103	2,995	—	2,995

Note: These represent the estimated value of share options and equity instruments granted to the directors under the Company's share option scheme and the discounted share subscriptions. The value of these share options and equity instruments is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(r)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

Details of these benefits in kind, including the principal terms and number of options granted and discounted share subscriptions, are disclosed under the paragraph "Share options scheme" and "Discounted share subscriptions" in the directors' report and notes 28(i) and (ii).

8. Individuals with highest emoluments

Of the five individuals with the highest emoluments, all (2006: two) are directors whose emoluments are disclosed in note 7 in the year ended 31 December 2007. The aggregate of the emoluments in respect of the other three individuals in 2006 are as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Salaries and other emoluments	—	1,357
Share-based payments	—	—
Retirement scheme contributions	—	61
	—	1,418

The emoluments of the three individuals with the highest emoluments in 2006 fall within the band of less than HK$1,000,000.

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

9. Discontinued operations

The Group's trading of investment and trading of pharmaceutical ingredients and chemicals products operations were discontinued during the financial year ended 31 December 2006.

Following the cessation of the trading activities, two subsidiaries, namely Fullgain International Investment Limited and INNOMAXX International Trading Company Limited were de-registered on 17 August 2007 and 31 August 2007 respectively.

In November 2006, the Group's property investment operation was discontinued following the disposal of two subsidiaries, namely INNOMAXX Property (BVI) Limited and GITIC Properties Limited, as part of the considerations in connection with the acquisition of 57% equity interest in Lead Sun Investments Limited.

(a) The results of the discontinued operations for the year ended 31 December 2006 are as follows:

	Note	**2006** *HK$'000*
Turnover	*3, 12*	138,207
Cost of sales		(138,580)
Gross loss		(373)
Valuation gain on investment properties	*13(a)*	15,794
Other revenue	*4*	541
Other net loss	*4*	(28)
Selling expenses		—
Administrative expenses		(1,191)
Profit from operations		14,743
Finance costs	*5(a)*	(2,476)
Profit before taxation	*5*	12,267
Income tax	*6(b)*	(1,317)
Profit for the year		10,950

(b) The net cash flows of the discontinued operations for the year ended 31 December 2006 is as follows:

	2006 *HK$'000*
Net cash outflow from operating activities	(6,874)
Net cash outflow from investing activities	(1,832)
Net cash outflow from financing activities	(32,910)
Net cash outflow incurred by the discontinued operations	(41,616)

10. Profit/(loss) attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of $146,367,000 (2006: loss of $46,919,000) which has been dealt with in the financial statements of the Company.

11. Earnings/(loss) per share

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to ordinary equity shareholders of the Company and the weighted average number of ordinary shares in issue during the year, calculated as follows:

(i) Profit/(loss) attributable to ordinary equity shareholders of the Company

	2007	**2006**
	HK$'000	*HK$'000*
Continuing operations	212,297	(19,194)
Discontinued operations	—	10,950
	212,297	(8,244)

(ii) Weighted average number of ordinary shares

	2007	**2006**
	HK$'000	*HK$'000*
Issued ordinary shares at 1 January	4,720,781	2,464,813
Effect of share issued *(note 31(c)(ii) and (iii))*	665,458	373,120
Effect of share options exercised *(note 31(c)(iv))*	—	7,310
Weighted average number of ordinary shares	5,386,239	2,845,243

(b) Diluted earnings/(loss) per share

The diluted earnings/(loss) per share from continuing operations and discontinued operations for the year ended 31 December 2007 and 2006 is the same as the basic earnings per share as the potential ordinary shares are anti-dilutive.

12. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group is currently engaged in mining operations and processing and storage of cord blood.

The Group was also involved in the trading of investments, sales of pharmaceutical and chemical products and property investment which were discontinued in the year ended 31 December 2006 as set out in note 9. These segments are the basis on which the Group reports its primary segment information.

Segment information about these businesses is set out as follows:

For the year ended 31 December 2007

	Processing and storage of cord blood	Mining					Unallocated	Total
		Molybdenum	Copper and Zinc	Rutile	Others*	Sub-total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue								
Turnover from external customers	21,461	551,225	115,593	—	8,137	674,955	—	696,416
Other revenue from external customers	—	—	—	—	—	—	1,248	1,248
Total	21,461	551,225	115,593	—	8,137	674,955	1,248	697,664
Segment result	298	129,716	22,777	(8,247)	(6,336)	137,910	1,248	139,456
Unallocated operating income and expenses								127,580
Profit from operations								267,036
Finance costs								(15,297)
Taxation								(27,308)
Share of losses of jointly controlled entities								(39)
Profit after taxation								224,392
Assets and liabilities								
Segment assets	46,105	3,462,533	508,001	1,958,142	425,715	6,354,391	1,038,843	7,439,339
Segment liabilities	55,808	1,195,853	234,311	191,446	76,255	1,697,865	32,632	1,786,305

	Processing and storage of cord blood	Mining					Unallocated	Total
		Molybdenum	Copper and Zinc	Rutile	Others*	Sub-total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information								
Depreciation and amortisation	1,015	64,846	39,320	395	5,872	110,433	2,124	113,572
Gain on disposal of property, plant and equipment	—	—	—	—	—	—	3,640	3,640
Impairment loss on trade and other receivables	424	—	—	—	—	—	963	1,387
Capital expenditure incurred during the year	1,882	2,813,140	422,021	24,280	407,293	3,666,734	174,357	3,842,973

* Others include business segments which individually account for less than 10% of the Group's revenue or total assets.

For the year ended 31 December 2006

	Continuing operations			Discontinued operations				
	Processing and storage of cord blood	Mining-Rutile	Sub-total	Property investment	Trading of investments	Sales of pharmaceutical and chemical products	Sub-total	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:								
Turnover from external customers	17,366	—	17,366	7,796	116,416	13,995	138,207	155,573
Other revenue	—	—	—	—	—	77	77	77
Total	17,366	—	17,366	7,796	116,416	14,072	138,284	155,650
Segment result	(7,409)	(1,130)	(8,539)	20,245	(5,809)	68	14,504	5,965
Unallocated operating income and expenses			(10,850)				239	(10,611)
(Loss)/profit from operations			(19,389)				14,743	(4,646)
Finance costs			(1,169)				(2,476)	(3,645)
Taxation			366				(1,317)	(951)
(Loss)/profit after taxation			(20,192)				10,950	(9,242)
Assets and liabilities								
Segment assets	24,344	1,695,875	1,720,219	—	—	—	—	1,720,219
Unallocated assets								451,960
Total assets								2,172,179
Segment liabilities	36,334	46,953	83,287	—	18	10	28	83,315
Unallocated liabilities								156,444
Total liabilities								239,759

	Continuing operations			Discontinued operations					
	Processing and storage of cord blood	Mining-Rutile	Sub-total	Property investment	Trading of investments	Sales of pharma-ceutical and chemical products	Sub-total	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information									
Depreciation	647	17	664	114	—	—	114	591	1,369
Loss on disposal of property, plant and equipment	—	18	18	—	—	—	—	—	18
Valuation gain on investment properties	—	—	—	(15,794)	—	—	(15,794)	—	(15,794)
Impairment loss of goodwill	7,400	—	7,400	—	—	—	—	—	7,400
Capital expenditure incurred during the year	1,813	1,678,623	1,680,436	7	—	—	7	3	1,680,446
Recovery of bad debt	—	—	—	(90)	—	(77)	(167)	(49)	(216)

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

For the year ended 31 December 2007

	Hong Kong	**The PRC**	**Europe**	**The U.S.**	**Korea**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	21,461	278,996	342,043	40,663	13,253	696,416
Segment assets	831,819	6,607,520	—	—	—	7,439,339
Capital expenditure incurred during the year	19,456	3,823,517	—	—	—	3,842,973

For the year ended 31 December 2006

	Hong Kong	**The PRC**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue			
Revenue from external customers	147,777	7,796	155,573
Attributable to discontinued operations	(130,411)	(7,796)	(138,207)
Revenue from continuing operations	17,366	—	17,366
Segment assets			
— Continuing operations	24,344	1,695,875	1,720,219
— Discontinued operations	—	—	—
	24,344	1,695,875	1,720,219
Unallocated assets	295,198	156,762	451,960
	319,542	1,852,637	2,172,179
Capital expenditure incurred during the year			
— Continuing operations	1,813	1,678,623	1,680,436
— Discontinued operations	—	7	7
	1,813	1,678,630	1,680,443
Unallocated assets	3	—	3
	1,816	1,678,630	1,680,446

13. Fixed assets

(a) The Group

	Buildings	Plant and machinery	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Mining shafts	Sub-total	Interests in leasehold land held for own use under operating leases	Investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:										
At 1 January 2006	—	—	1,339	5,173	2,711	—	9,223	—	124,800	134,023
Exchange adjustments	—	—	—	3	5	—	8	—	—	8
Purchase of net assets *(note 32(b))*	—	—	—	259	494	—	753	—	—	753
Additions	—	—	307	1,529	—	—	1,836	—	—	1,836
Disposals	—	—	—	(167)	—	—	(167)	—	—	(167)
Fair value adjustment	—	—	—	—	—	—	—	—	15,794	15,794
Disposal of subsidiaries	—	—	(549)	(147)	—	—	(696)	—	(140,594)	(141,290)
At 31 December 2006	—	—	1,097	6,650	3,210	—	10,957	—	—	10,957
At 1 January 2007	—	—	1,097	6,650	3,210	—	10,957	—	—	10,957
Exchange adjustments	9,405	2,486	—	35	262	2,425	14,613	12,193	—	26,806
Acquisition of subsidiaries *(note 32(a))*	239,117	69,627	—	898	6,598	61,015	377,255	306,838	—	684,093
Additions	14,946	17,627	1,566	1,861	7,269	—	43,269	800	—	44,069
Disposals	(21,008)	(77)	(791)	(843)	(2,382)	—	(25,101)	—	—	(25,101)
Transfer from construction in progress *(note 15)*	58,202	—	—	—	—	18	58,220	—	—	58,220
Disposal of a subsidiary	(2,735)	—	—	—	—	—	(2,735)	—	—	(2,735)
At 31 December 2007	297,927	89,663	1,872	8,601	14,957	63,458	476,478	319,831	—	796,309

	Buildings	Plant and machinery	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Mining shafts	Sub-total	Interests in leasehold land held for own use under operating leases	Investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated amortisation, depreciation:										
At 1 January 2006	—	—	741	2,893	2,190	—	5,824	—	—	5,824
Charge for the year	—	—	409	720	240	—	1,369	—	—	1,369
Disposals	—	—	—	(149)	—	—	(149)	—	—	(149)
Disposal of subsidiaries	—	—	(384)	(135)	—	—	(519)	—	—	(519)
At 31 December 2006	—	—	766	3,329	2,430	—	6,525	—	—	6,525
At 1 January 2007	—	—	766	3,329	2,430	—	6,525	—	—	6,525
Exchange adjustments	198	140	—	13	34	92	477	126	—	603
Charge for the year	4,881	3,372	565	1,169	890	2,207	13,084	3,047	—	16,131
Disposals	—	—	(791)	(782)	(2,382)	—	(3,955)	—	—	(3,955)
Disposal of a subsidiary	(262)	—	—	—	—	—	(262)	—	—	(262)
At 31 December 2007	4,817	3,512	540	3,729	972	2,299	15,869	3,173	—	19,042
Net book value:										
At 31 December 2007	293,110	86,151	1,332	4,872	13,985	61,159	460,609	316,658	—	777,267
At 31 December 2006	—	—	331	3,321	780	—	4,432	—	—	4,432

The interest in leasehold land held for own use under operating leases are held on a medium-term lease of 50 years in the PRC.

The applications for property ownership certificates of certain buildings and land use right certificates of certain leasehold lands located in Harbin and Inner Mongolia, the PRC, with net book value totalling $31,614,000 (equivalent to RMB29,638,000) and $3,281,000 (equivalent to RMB3,076,000 respectively are still in progress and these ownership certificates have not yet been issued to the Group by the relevant local government authority as at 31 December 2007. Notwithstanding this, the directors are of the opinion that the Group has acquired the beneficial title to these buildings and leasehold lands as at 31 December 2007, and the property ownership certificates and land use right certificates can be obtained.

(b) The Company

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
Cost:			
At 1 January 2006	—	—	—
Additions	180	338	518
At 31 December 2006	180	338	518
At 1 January 2007	180	338	518
Additions	1,097	204	1,301
Disposals	(180)	(187)	(367)
At 31 December 2007	1,097	355	1,452
Accumulated depreciation:			
At 1 January 2006	—	—	—
Charge for the year	54	38	92
At 31 December 2006	54	38	92
At 1 January 2007	54	38	92
Charge for the year	370	125	495
Disposals	(180)	(64)	(244)
At 31 December 2007	244	99	343
Net book value:			
At 31 December 2007	853	256	1,109
At 31 December 2006	126	300	426

14. Intangible assets

	Exploration and evaluation assets *HK$'000*	Mining rights *HK$'000*	Exploration rights *HK$'000*	Total *HK$'000*
Cost:				
At 1 January 2006	—	—	—	—
Exchange adjustments	—	16,758	—	16,758
Purchase of net assets	—	1,675,784	—	1,675,784
Additions	—	2,073	—	2,073
At 31 December 2006	—	1,694,615	—	1,694,615
At 1 January 2007	—	1,694,615	—	1,694,615
Exchange adjustments	684	229,632	497	230,813
Acquisition of subsidiaries *(note 32(a)(i))*	17,204	2,935,719	12,505	2,965,428
Additions	18,156	53	—	18,209
At 31 December 2007	36,044	4,860,019	13,002	4,909,065
Accumulated amortisation:				
At 31 December 2006 and 1 January 2007	—	—	—	—
Exchange adjustments	—	3,536	—	3,536
Charge for the year	—	85,237	12,204	97,441
At 31 December 2007	—	88,773	12,204	100,977
Net book value:				
At 31 December 2007	36,044	4,771,246	798	4,808,088
At 31 December 2006	—	1,694,615	—	1,694,615

The Group's mining rights and principal exploration rights are as follows:

Mining rights

Mine	**Location**	**Expiry date**	*Note*
Shanxi Dai County Rutile mine	Dai County, Shanxi	September 2009	*(a)*
Songjiang Copper Mine	Bin County, Harbin, Heilongjiang	December 2019	*(b)*
Wudaoling Molybdenum Mine	Acheng District, Harbin, Heilongjiang	December 2009	
Xiaoling Iron-Zine Mine	Acheng District, Harbin, Heilongjiang	February 2010	*(b)*
Chaganchulu Quartz Mine	Keyouqian Banner, Inner Mongolia	December 2009	*(a)*
Chaersen Quartz Mine	Keyouqian Banner, Inner Mongolia	December 2009	*(a)*
Wulongshan Quartz Mine	Keyouqian Banner, Inner Mongolia	December 2009	*(a)*
Qiaolunengeci Quartz Mine	Ejina Banner, Inner Mongolia	October 2010	*(a)*
Nuoergai Copper Mine	Balinyou Banner, Inner Mongolia	May 2008	*(b)*

Exploration rights

Mine	**Location**	**Expiry date**	*Note*
Huhedaban Lead-Polymetallic Mine	Keyouqian Banner, Inner Mongolia	September 2008	*(d)*
Hailesitai Hulinzhan Lead-Polymetallic Mine	Keyouqian Banner, Inner Mongolia	September 2008	*(d)*
Dahengshan Molybdenum-Lead-Zinc Mine	Keyouqian Banner, Inner Mongolia	September 2008	*(d)*
Fantaigou Gold-Molybdenum Mine	Song County, Henan	December 2007	*(c), (d)*
Nanqiangzi Copper-Zinc Mine	Bin County, Harbin, Heilongjiang	March 2009	*(d)*
Erdaohezi Copper-Zinc Mine	Acheng District, Harbin, City, Heilongjiang	March 2009	*(d)*
Xiaocaoyanggou Copper-Zinc Mine	Wengniute Banner, Inner Mongolia	December 2007	*(c), (d)*

Notes:

(a) No amortisation was made during the year as these mines are in a development stage and no mining activities are conducted in these mines.

(b) Historically, the mining rights of Songjiang Copper Mine and Xiaoling Iron Zinc Mine were state-owned and the mining right of Nuoergai Copper Mine was collectively-owned. The Group has submitted an application to the respective government authorities for the transfer of the relevant mining rights to privately-owned at a consideration. The mining rights are yet to be transferred as at 31 December 2007. The estimated total consideration for the transfer for mining rights is about $25,799,000 and has been included in other payables. The consideration for such transfers are estimated by the directors based on their knowledge in the mining industry after having considered the mineral ore reserve of each mine and the prevailing nonferrous metals market in the PRC. The directors are of the opinion that the Group is entitled to conduct mining activities in these mines and the privately-owned mining licenses can be obtained.

(c) As at the date of the report, the Group has applied for an extension of the relevant exploration rights but the extensions are yet to be obtained.

(d) The exploration rights represent the rights for exploration in certain locations in the PRC and the periods of these exploration rights generally range 1 - 2 years. The amortisation charge for the year ended 31 December 2007 is capitalised and included in the additions to exploration and evaluation assets.

15. Construction in progress

	2007	**2006**
	HK$'000	*HK$'000*
At 1 January	—	—
Acquisition of subsidiaries *(note 32(a)(i))*	58,904	—
Additions	84,474	—
Exchange adjustments	2,338	—
Transfer to property, plant and equipment *(note 13)*	(58,220)	—
At 31 December	87,496	—

Construction in progress comprises costs incurred on buildings, plant and machineries not yet completed at the respective balance sheet dates.

16. Goodwill

	The Group
	HK$'000
Cost:	
At 1 January 2006, 31 December 2006 and 2007	17,726
Accumulated impairment losses:	
At 1 January 2006	2,126
Impairment loss	7,400
At 31 December 2006 and 2007	9,526
Carrying amount:	
At 31 December 2006 and 2007	8,200

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's processing and storage of cord blood cash-generating unit ("CGU").

The recoverable amounts of the processing and storage of cord blood CGU is determined based on the value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates using a risk-free rate, the market return and company-specific factors. The growth rates are based on the estimation on the historical annual growth rates of the processing and storage of cord blood CGU and the comparable companies industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

During the year, the Group performed an impairment review for goodwill with reference to the valuation carried out by BMI Appraisals Limited, independent qualified professional valuers. The valuation is based on cash flow forecasts derived from the most recent financial budgets approved by management for the next year and extrapolated cash flows for the following ten years based on estimated growth rate of 5% to 14% plus a terminal value. The rate used to discount the forecast cash flow is 16.2%. Based on the valuation, no impairment loss was considered necessary.

17. Investments in subsidiaries

The Company

	2007	**2006**
	HK$'000	*HK$'000*
Unlisted shares, at cost	2,735,563	823,231

The following list contains only the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest			
Name of company	**Place of incorporation/ operation**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activities**
Biogrowth Assets Limited	British Virgin Islands/ Hong Kong	1 share of US$1	100%	100%	—	Investment holding
Cell Therapy Technologies Centre Limited	Hong Kong/ Hong Kong	20,000,000 shares of $0.01 each	100%	—	100%	Provision of cord blood bank and its relevant laboratory service
China Kent Development Limited *	Hong Kong/ Hong Kong	2 ordinary shares and 10,000 non-voting deferred shares of $1 each	100%	—	100%	Provision of administrative support to group companies
INNOMAXX Investment Holdings Limited *	Hong Kong/ Hong Kong	2 shares of $1 each	100%	100%	—	Investment holding
Lead Sun Investments Limited	British Virgin Islands/ Hong Kong	1,000 shares of US$1 each	57%	57%	—	Investment holding

Name of company	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of ownership interest Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Longship Limited *	British Virgin Islands/ Hong Kong	1 share of US$1	100%	—	100%	Investment holding
Fullgain International Investment Limited *	Hong Kong/ Hong Kong	2 shares of $1 each	100%	—	100%	Securities investment holding and trading of securities investment
INNOMAXX International Trading Company Limited *	Hong Kong/ Hong Kong	1 share of $1	100%	—	100%	Trading of pharmaceutical ingredients and chemicals
New Legend International Group Limited	Hong Kong/ Hong Kong	1 share of $1	100%	100%	—	Provision of administrative support to group companies
Offspring Investments Limited *	British Virgin Islands/ Hong Kong	1 share of US$1	100%	100%	—	Inactive
Shanxi Shenli Aerospace Titanium Company Limited# ("Shanxi Shenli")	The PRC/ The PRC	Registered capital RMB 184,800,000	51.3%	—	90%	Rutile mining
Sinorich Technology Development Limited *	Hong Kong/ Hong Kong	2 shares of $1 each	100%	—	100%	Inactive
Titanspeed Investments Limited	British Virgin Islands/ Hong Kong	1 share of US$1	100%	100%	—	Inactive
Top Rank International Group Limited	British Virgin Islands/ Hong Kong	50,000 shares of US$1 each	57%	—	100%	Investment holding
United Profit Investments Limited *	British Virgin Islands/ Hong Kong	1 share of US$1	100%	100%	—	Investment holding
Saxony Goal Limited	Hong Kong/ Hong Kong	10,000 shares of $1 each	100%	100%	—	Inactive
Best Tone Holdings Limited	Hong Kong/ Hong Kong	1 share of US$1	100%	100%	—	Inactive
Will Win Group Limited	Hong Kong/ Hong Kong	1 share of $1	100%	100%	—	Investment holding
Harbin Songjiang Copper (Group) Company Limited # (哈爾濱松江銅業(集團)有限公司)	The PRC/ The PRC	RMB240,788,100	75.08%	75.08%	—	Sales of copper, zinc, molybdenum and other nonferrous metals

Name of company	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Acheng Xiaoling Iron & Zinc Co. Ltd.# (阿城市小嶺鐵鋅有限公司)	The PRC/ The PRC	RMB3,866,000	75.08%	—	100%	Processing of molybdenum and iron
Harbin Songjiang Copper Enterprise Co. Ltd.# (哈爾濱松江銅業實業有限公司)	The PRC/ The PRC	RMB50,962,500	75.08%	—	100%	Mining, processing and sales of copper and zinc
Harbin Songjiang Molybdenum Ltd.# (哈爾濱松江鉬業有限公司)	The PRC/ The PRC	RMB128,782,900	75.08%	—	100%	Mining, processing and sales of molybdenum
Xinganmeng Songjiang Mining Co. Ltd # (興安盟松江礦業有限公司)	The PRC	RMB10,000,000	67.572%	—	90%	Under construction of smelting and mining plant
Shangzhi Zhuhe Mining Co. Ltd.# (尚志市珠河礦業有限公司)	The PRC/ The PRC	RMB50,000,000	75.08%	—	100%	Processing of molybdenum
Ejinaqi Qiaolun Engeci Quartz Production Co. Ltd# (額濟納旗喬倫恩格茨石英有限公司)	The PRC	RMB500,000	75.08%	—	100%	Not yet commenced business
Inner Mongolia Zhongrun Magnesium Co. Ltd.# (內蒙古中潤鎂業有限公司)	The PRC	RMB50,000,000	75.08%	—	100%	Under construction of smelting plant
Wuhai Derun Ferroalloy Limited Liability Company# (烏海市德潤鐵合金有限責任公司)	The PRC/ The PRC	RMB10,000,000	75.08%	—	100%	Inactive
Chifeng Songjiang Jinjian Mining Limited Liability Company # (赤峰松江金劍礦業有限責任公司)	The PRC/ The PRC	RMB10,000,000	45.05%	—	60%	Investment holding
Balinyouqi Nuoergai Copper Mining Co. Ltd. # (巴林右旗諾爾蓋銅礦有限責任公司)	The PRC/ The PRC	RMB500,000	45.05%	—	100%	Mining, processing and sales of copper
Alukeerqinqi Manitu Silver & Tin Mining Co. Ltd #* (阿魯科爾沁旗瑪尼吐銀錫礦有限責任公司)	The PRC	RMB500,000	45.05%	—	100%	Not yet commenced business

A limited liability company established in the PRC.

* Disposed of/de-registered during the year.

18. Interest in jointly controlled entities

	The Group		The Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted shares, at cost	—	—	39	—
Share of net liabilities	—	—	—	—
	—	—	39	—

Details of the Group's interest in the jointly controlled entities are as follows:

				Proportion of ownership interest			
Name of joint venture	Form of business structure	Place of incorporation/ operation	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a jointly controlled entry	Principal activity
GCMR Fujian Holdings Limited	Incorporated	British Virgin Islands	1,000 shares of US$10 each	50%	50%	—	Investment holding
GCMR Fujian (Hong Kong) Limited	Incorporated	Hong Kong	1,000 shares of US$10 each	50%	—	100%	Investment holding

Summary financial information on jointly controlled entities — Group's effective interest:

	2007	**2006**
	HK$'000	*HK$'000*
Current assets	33	—
Current liabilities	(147)	—
	(114)	—
Income	—	—
Expenses	(153)	—
Loss for the year	(153)	—

19. Inventories

(a) Inventories in the consolidated balance sheet comprise:

	2007	**2006**
	HK$'000	*HK$'000*
Raw materials	7,451	430
Work in progress	10,221	—
Finished goods	10,763	—
Goods in transit	17,788	—
	46,223	430

(b) The analysis of the amount of inventories recognised as an expense is as follows:

Carrying amount of inventories sold/consumed:

	2007	**2006**
	HK$'000	*HK$'000*
Continuing operations	491,685	1,205
Discontinued operations	—	13,850

20. Trade and other receivables

(a) Non-current other receivables comprise:

		The Group		**The Company**	
		2007	**2006**	**2007**	**2006**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Downpayments	*(i)*	13,972	—	—	—
Loans and advances to business associates	*(ii)*	71,500	—	—	—
Loans to employees and officers	*(iii)*	6,774	—	—	—
		92,246	—	—	—

Notes:

(i) Downpayments were paid to relevant local authorities for the acquisition of leasehold land located in Heilongjiang and Shanxi, the PRC.

(ii) Loans and advances to business associates are unsecured, interest free and repayable after more than one year but within two years.

(iii) Loans to employees and officers are unsecured, repayable within three years and interest bearing with a fixed interest rate of 6.58% per annum.

The above loans and advances are assumed by the Group upon the business combination as disclosed in note 32.

(b) Current trade and other receivables comprises:

	The Group		The Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade debtors and bills receivable	304,482	12,478	—	—
Less: Allowance for doubtful debts *(note 20(b)(ii))*	(4,455)	(1,350)	—	—
	300,027	11,128	—	—
Other debtors	35,410	354	1,783	846
Less: Allowance for doubtful debts *(note 20(b)(ii))*	(11,375)	—	—	—
	24,035	354	1,783	846
Amount due from export sales agent	16,827	—	—	—
Amounts due from jointly controlled entities	217	—	—	—
Amount due from minority shareholders	1,067	—	—	—
Amounts due from subsidiaries	—	—	44,373	12,704
Loans and receivables	342,173	11,482	46,156	13,550
Deposits and prepayments	28,538	3,567	3,534	1,579
	370,711	15,049	49,690	15,129

Includes in trade receivables of the Group are amount due from a minority shareholder of $30,227,000 (2006: $Nil), details of which are disclosed in note 36(a).

Included in other debtors of the Group are amounts totalling $7,965,000 (2006: $Nil) which represent loans to business associates. All loans are unsecured, interest free and repayable within one year except for a loan with a remaining balance of $3,741,000 (2006: $Nil) as at 31 December 2007 which is interest bearing with a fixed interest rate of 10% per annum and secured by a building together with the related land use right located in Harbin, the PRC.

Amount due from export sales agent represents settlements received from overseas customers by the export sales agent on behalf of the Group. Such amounts are unsecured, interest-free and expected to be recovered within one year.

The amounts due from jointly controlled entities, minority shareholders and subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

All of the other trade and other receivables (including amounts due from subsidiaries), apart from those mentioned in above and certain deposits and prepayments of $1,141,000 (2006: $1,456,000), are expected to be recovered or recognised as expense within one year.

(i) *Ageing analysis*

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
0 to 30 days	169,897	2,309
31 to 60 days	66,874	1,469
61 to 90 days	34,692	1,435
Over 90 days	28,564	5,915
	300,027	11,128

Trade debtors and bills receivables are due within 90 days from the date of billings. Further details on the Group's credit policy are set out in note 33(a).

(ii) *Impairment of trade debtors and bills receivable and other debtors*

Impairment losses in respect of trade debtors and bills receivable and other debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable and other debtors directly. *(see note 1(l)(i))*

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2007	**2006**
	HK$'000	*HK$'000*
At 1 January	1,350	473
Exchange adjustments	500	—
Acquisition of subsidiaries	12,593	—
Impairment loss recognised	1,387	877
At 31 December	15,830	1,350

At 31 December 2007, the Group's trade debtors and bills receivable and other debtors of $6,710,000 and $23,852,000 (2006: $1,350,000 and $Nil) respectively were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $15,830,000 (2006: $1,350,000) were recognised. The Group does not hold any collateral over these balances.

(iii) Trade debtors and bills receivable and other debtors that are not impaired

The ageing analysis of trade debtors and bills receivable and other debtors that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Neither past due nor impaired	308,232	11,482
Less than 1 month past due	11	—
1 to 3 months past due	404	—
Over 3 months past due	683	—
	1,098	—
	309,330	11,482

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances except for the loans mentioned above.

21. Cash and cash equivalents

	The Group		The Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fixed deposits with banks	781,277	414,934	695,869	265,812
Cash at bank and in hand	466,317	34,153	63	1,001
Cash and cash equivalents	1,247,594	449,087	695,932	266,813

22. Trade and other payables

	The Group		The Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	13,621	754	—	—
Other payables and accruals	164,582	8,958	6,787	5,878
Current portion of mining right payables *(note 30)*	64,653	12,475	—	—
Amount due to a jointly controlled entity	—	—	27	—
Amount due to a minority shareholder	2,807	170	—	—
Amounts due to subsidiaries	—	—	14,764	20
Financial liabilities measured at amortised cost	245,663	22,357	21,578	5,898
Receipts in advance	10,467	160	—	—
	256,130	22,517	21,578	5,898

The amounts due to a jointly controlled entity, a minority shareholder and subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Included in other payables are retention payables of $961,000 (2006: $Nil) in respect of construction works which are expected to be settled after one year.

Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Due within 3 months or on demand	10,287	754
Due after 3 months but within 6 months	437	—
Due after 6 months but within 1 year	225	—
Due after 1 year	2,672	—
	13,621	754

23. Deferred income

(a) Deferred income of $53,814,000 (2006: $34,839,000) represents fees received in advance for the provision of cord blood storage services. The amount is amortised over the remaining service period.

(b) Non-current deferred income represents government grants received by the Group as of the balance sheet date. Certain government grants are received by the Group in respect of property, plant and equipment and interest in leasehold land held for own use under operating leases. Such government grants are recognised in the balance sheet initially and recognised in the income statement as other revenue on a systematic basis over the useful life of the assets. Movements of government grants received during the year are as follows:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
At 1 January	—	—
Acquisition of subsidiaries	77,475	—
Received during the year	693	—
Recognised as other revenue during the year	(1,248)	—
Exchange adjustments	3,056	—
At 31 December	79,976	—

(i) Government grants assumed upon acquisition of subsidiaries

Government grants of $48,029,000 (equivalent to RMB46,816,000) were received by Harbin Sonjiang Copper (Group) Company Limited ("Harbin Songjiang"), which was acquired by the Company as mentioned in note 32, from the local government authorities to support the smelting plants development projects in Harbin and Inner Mongolia, the PRC, prior to the acquisition. The government grant of $10,259,000 (equivalent to RMB10,000,000) was received in respect of the construction of smelting plants in Harbin and is recognised in the income statement over the useful life of smelting plants. As the smelting plant is still under construction, no amount has been recognised in the income statement so far. The government grant of $37,770,000 (equivalent to RMB36,855,000) was received for the acquisition of leasehold land under operating leases for the smelting plants development project. Such government grant is recognised in the income statement over the period of the lease term, which is 50 years. An amount of $377,000 has been recognised as other revenue for the year ended 31 December 2007.

Government grants totalling $10,669,000 (equivalent to RMB10,400,000) and $19,333,000 (equivalent to RMB18,845,000) were also received by Harbin Songjiang prior to the acquisition for its infrastructure built and mining activities in the local area. Such government grants are recognised in the income statement over the useful life of infrastructure, which is 30 years, or using the unit of production method based on the proven and probable mineral reserves of the related mine. An amount of $178,000 has been recognised as other revenue for the year ended 31 December 2007.

(ii) Government grants received by the Group during the year ended 31 December 2007

Apart from the government grants as disclosed above, the Group has received several one-off government grants of $693,000 during the year ended 31 December 2007. Such government grants are received for the Group's contribution to the local economy and have been recognised as other revenue during the year.

24. Loans from minority shareholders

Loans were obtained from minority shareholders of a subsidiary, which are unsecured, interest-free and have no fixed terms of repayment.

25. Bank loans

The bank loans were repayable as follows:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Within one year or on demand	127,467	—
After 1 year but within 2 years	53,333	—
After 2 years but within 5 years	32,000	—
	85,333	—
	212,800	—

All the bank loans as at 31 December 2007 were interest-bearing at floating rates with reference to the prevailing borrowing rate quoted by the People's Bank of China. The interest rates of bank loans ranged 6.480% to 7.227% per annum as at 31 December 2007.

The Group's bank loans were secured as follows:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Bank loans		
Unsecured	52,800	—
Guaranteed by a third party *(note 35(d))*	32,000	—
Guaranteed by a minority shareholder *(note 36(c))*	128,000	—
	212,800	—

26. Other loans

		The Group	
	Note	**2007**	**2006**
		HK$'000	*HK$'000*
Within 1 year or on demand	*(i)*	1,067	—
After 5 years	*(ii)*	4,576	—
		5,643	—

Notes:

(i) A loan with a principal amount of $1,067,000 (equivalent to RMB1,000,000) was provided by the Industry Development Fund (工業發展基金) of the Harbin Finance Bureau to Harbin Songjiang in 1998. The loan is unsecured, interest-free and repayable within one year.

(ii) Another loan with a principal of $4,576,000 (equivalent to RMB4,290,000) was provided by the Harbin Finance Bureau during the year. The loan is unsecured, interest-bearing with a fixed rate of 2.55% per annum and repayable after 5 years.

27. Employee retirement benefits

(a) The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the plan vest immediately.

In addition, the Group makes voluntary contributions for certain eligible directors and employees. The amount of voluntary contributions is calculated at 5% of their relevant monthly income in excess of $20,000.

(b) Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities, whereby the Group is required to make contributions to the Schemes at a rate ranging from 18% to 22% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

28. Equity settled share-based transactions

(a) Share option scheme

The Company has a share options scheme which was adopted on 26 June 2002 whereby the directors of the Company may, at their discretion, invite directors and employees of the Company or its subsidiaries to subscribe for shares in the Company subject to terms and conditions stipulated therein. The options granted were vested immediately at the date of grant and were exercisable within a period of three years. Each option gives the holder the right to subscribe for one ordinary share in the Company.

(i) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

For the year ended 31 December 2007:

	Number of instruments	**Vesting conditions**	**Contractual life of options**
Options granted to directors			
— on 6 July 2007	175,000,000	Immediately	3 years
— on 25 September 2007	12,000,000	Immediately	3 years
Options granted to employees			
— on 6 July 2007	40,000,000	Immediately	3 years
— on 11 July 2007	1,000,000	Immediately	3 years
Total share options	228,000,000		

(ii) The number and exercise price of share options are as follows:

	2007		2006	
	Weighted average exercise price	**Number of options**	**Weighted average exercise price**	**Number of options**
	HK$	*'000*	*HK$*	*'000*
Outstanding at the beginning of the year	—	—	0.160	24,488
Exercised during the year	—	—	0.160	(24,488)
Granted during the year	1.79	228,000	—	—
Outstanding at the end of the year	1.79	228,000	—	—
Exercisable at the end of the year	1.79	228,000	—	—

The weighted average share price at the date of exercise for share options exercised in 2006 was $1.3.

Upon the exercise of the share 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 share and the corresponding capital reserve are recorded by the Company in the share premium account.

The options outstanding at 31 December 2007 had an exercise price of $1.30 or $1.82 and a weighted average remaining contractual life of 2.51 years.

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a Black-Scholes model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes model.

Fair value of share options and assumptions:

	6 July 2007	**11 July 2007**	**25 September 2007**
Fair value at measurement date	$0.6117	$0.5635	$0.4343
Share price	$1.79	$1.72	$1.22
Exercise price	$1.82	$1.82	$1.30
Expected volatility (expressed as average volatility used in the modelling under Black-Scholes model)	44.50%	44.665%	50.495%
Option life (expressed as weighted average life used in the modelling under Black-Scholes model)	3 years	3 years	3 years
Expected dividends	—	—	—
Risk-free interest rate (based on Exchange Fund Notes)	4.447%	4.380%	3.906%

The expected volatility is based on the average annualised standard deviations of the continuously compounded rates of return on the average share prices of similar companies as of the measurement date pubicly quoted. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

(b) Discounted shares subscription

The Company entered into the subscription agreement with the directors and senior management of the Group ("the Subscribers") on 13 July 2007. The Company has agreed to issue, and the Subscribers have agreed to subscribe a total of 157,070,000 shares before the completion date of such agreement (the date being the first anniversary date of the subscription agreement or, if such date is not a business day, the immediately preceding day which is a business day), at a subscription price of $1.10 per subscription share in cash ("the Subscription"). The subscription price represents a discount of approximately 34.13% to the closing price of $1.67 per share as quoted in the stock market on 12 July 2007 (being the last day of trading in stock market before the date of the subscription agreement)), with a lock-up period ranged from 1 to 3 years. If any terms and conditions of the subscription agreement are not fulfilled before the completion date, the arrangement should terminate. In the event that the Subscribers ceases to be employed by a member of the Group for whatever reason during the lock-up period, the Company has the right to repurchase the relevant portion of subscription shares at a share repurchase price of $1.10 per subscription share.

The Subscriptions has been approved in the special general meeting held on 21 August 2007.

(i) The terms and condition of the subscription of discount shares

	Lock-up period	**Number of shares**
		'000
Subscribers		
Directors	13 July 2007 to 12 July 2008	46,766,667
	13 July 2007 to 12 July 2009	46,766,667
	13 July 2007 to 12 July 2010	46,766,666
		140,300,000
Employees	13 July 2007 to 12 July 2008	5,590,000
	13 July 2007 to 12 July 2009	5,590,000
	13 July 2007 to 12 July 2010	5,590,000
		16,770,000

No discounted shares were subscribed by the Subscribers during the year.

(ii) Fair value of discounted shares and assumptions

The fair value of services received in return for discounted shares offered is measured by reference to the fair value of discount offered. The estimation of fair value is based on the Black-Scholes model. The 3 years' lock-up period of the discounted share is used as an input into this model.

Fair value of discounted shares and assumptions:

Measurement date	21 August 2007
Share price	$1.41
Subscription price	$1.10
Total number shares	157,070,000

Lock-up period	13 July 2007 to 12 July 2008	13 July 2007 to 12 July 2009	13 July 2007 to 12 July 2010
Number of shares	52,356,667	52,356,667	52,356,666
Fair value of discount at measurement date	$0.1471	$0.2265	$0.2406
Expected volatility	47.270%	52.635%	48.611%
Dividend yield	—	—	—
Risk-free rate (based on Exchange Fund Notes)	3.840%	3.838%	3.946%

The expected volatility is based on the average annualised standard deviations of the continuously compounded rates of return on the average share prices of similar companies as of the measurement date publicly quoted. Changes in the subjective input assumptions could materially affect the fair value estimate.

Subscription of discounted shares were granted under a service condition. This condition has been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with grant of discounted shares subscription.

29. Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	The Group		The Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Provision for PRC Income Tax for the year	98,383	—	—	—
Balance of PRC Income Tax provision assumed in the business combination and relating to current year of assessment	76,936	—	—	—
Income Tax paid	(54,451)	—	—	—
	120,868	—	—	—
Balance of PRC Income Tax provision assumed in the business combination and relating to prior years of assessment	63,393	—	—	—
	184,261	—	—	—

(b) ***Deferred tax assets and liabilities recognised:***

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

The Group

	Fixed assets	Intangible assets	Investment properties	Impairment loss for trade and other receivables	Inventories	Accruals	Accumulated losses	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax arising from:									
At 1 January 2006	—	—	6,365	—	—	—	—	—	6,365
Charged/(credited) to profit or loss	312	—	805	—	—	—	(678)	—	439
Disposal of subsidiaries *(note 32(c)(ii))*	—	—	(7,170)	—	—	—	—	—	(7,170)
At 31 December 2006	312	—	—	—	—	—	(678)	—	(366)
At 1 January 2007	312	—	—	—	—	—	(678)	—	(366)
Acquisition of subsidiaries	64,902	693,171	—	(3,743)	33,025	(16,929)	(598)	(1,625)	768,203
Charged/(credited) to profit or loss	(1,081)	(22,779)	—	363	(36,763)	(5,752)	(1,030)	(4,033)	(71,075)
Disposal of a subsidiary *(note 32(c)(i))*	—	—	—	—	—	310	—	—	310
Exchange difference	2,529	26,610	—	(134)	(210)	(909)	(60)	(217)	27,609
At 31 December 2007	66,662	697,002	—	(3,514)	(3,948)	(23,280)	(2,366)	(5,875)	724,681

	2007	**2006**
	HK$'000	*HK$'000*
Net deferred tax assets recognised on the balance sheet	(1,514)	(366)
Net deferred tax liabilities recognised on the balance sheet	726,195	—
	724,681	(366)

(c) ***Deferred tax assets not recognised:***

In accordance with the accounting policy set out in note 1(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately $32,908,000 (2006: $36,776,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under the current tax legislation.

30. Other payables

The Group

	2007	2006
	HK$'000	*HK$'000*
Mining right payables	181,639	44,378
Less: amount included under "current liabilities" *(note 22)*	(64,653)	(12,475)
	116,986	31,903

Pursuant to mining rights premium agreements entered into between the Group and the relevant government authorities of the PRC, the mining rights premium in respect of the mining rights of Shanxi Dai County Rutile mine and Wudaoling Molybdenum mine amounted to approximately $65,510,000 and $161,875,000 respectively. As at 31 December 2007, the remaining balance of the mining rights premium of $36,817,000 and $119,023,000 in respect of Shanxi Dai County Rutile mine and Wudaoling Molybdenum mine shall be settled in four instalments and the final instalments are payable on or before 30 June 2012 and 22 May 2011 respectively.

Mining right payables also included the estimated consideration of $25,799,000 for the transfer of mining right as disclosed in note 14 and was classified as current liabilities.

31. Capital and reserves

(a) The Group

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

(b) The Company

	Note	Share capital	Share premium	Contributed surplus	Capital Reserve	Acc-umulated losses	Total
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006		246,481	177,179	234,944	2,373	(407,115)	253,862
Loss for the year		—	—	—	—	(46,919)	(46,919)
Shares issued under:							
— purchase of net assets	*31(c)(ii)*	108,148	324,444	—	—	—	432,592
— share placing	*31(c)(iii)*	115,000	345,000	—	—	—	460,000
— share options scheme	*31(c)(iv)*	2,449	3,842	—	(2,373)	—	3,918
Share issue expenses		—	(3,752)	—	—	—	(3,752)
At 31 December 2006		472,078	846,713	234,944	—	(454,034)	1,099,701
At 1 January 2007		472,078	846,713	234,944	—	(454,034)	1,099,701
Loss for the year		—	—	—	—	(146,367)	(146,367)
Shares issued under share placing	*31(c)(iii)*	130,587	2,324,452	—	—	—	2,455,039
Share issue expenses	*31(c)(iii)*	—	(90,594)	—	—	—	(90,594)
Equity settled share-based transaction		—	—	—	142,976	—	142,976
At 31 December 2007		602,665	3,080,571	234,944	142,976	(600,401)	3,460,755

(c) Share capital

(i) Authorised and issued share capital

	2007		2006	
	Number of shares		**Number of shares**	
	'000	*HK$'000*	*'000*	*HK$'000*
Authorised:				
Ordinary shares of $0.1 each	10,000,000	1,000,000	10,000,000	1,000,000
Ordinary shares issued and fully paid:				
At 1 January	4,720,781	472,078	2,464,813	246,481
Share issued under:				
— purchase of net assets	—	—	1,081,480	108,148
— share placing	1,305,872	130,587	1,150,000	115,000
— share options cheme	—	—	24,488	2,449
At 31 December	6,026,653	602,665	4,720,781	472,078

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

(ii) Shares issued under purchase of net assets

On 2 November 2006, the Company issued 1,081,480,000 new shares as part of the consideration payable for the purchase of net assets in respect of rutile mining business.

(iii) Shares issued under placing

On 31 October 2006, the Company issued 1,150,000,000 new shares pursuant to a placing agreement entered into with and an over-allotment option granted to a placing agent on 7 July 2006 at $0.4 per share to finance the purchase of net assets as set out in note 32(b) and further development of the mining operations.

On 29 June 2007, the Company issued 1,305,872,000 new shares pursuant to a placing agreement entered into with a placing agent on 21 June 2007 to finance the acquisition of subsidiaries as set out in note 32(a)(i). Part of the proceeds of $130,587,000, representing the par value of the share issued, were credited to the Company's share capital. The remaining proceeds of $2,324,452,000, before the share issue expenses of $90,594,000, were credited to the share premium account.

(iv) Shares issued under share options scheme

On 1 June 2006, 26 October 2006 and 3 November 2006, options were exercised to subscribe for 24,488,000 ordinary shares in the Company at a consideration of $3,918,000 of which $2,449,000 was credited to share capital and the balance of $1,469,000 was credited to the share premium account. $2,373,000 has been transferred from the share options reserve to the share premium account in accordance with policy set out in note 1(r)(ii).

(v) Subscriptions of discounted shares

On 13 July 2007, the Company entered into the subscription agreement with the Subscribers pursuant to subscribe for a total of 157,070,000 shares at a subscription price of $1.10 per share. None of the Subscribers has subscribed the shares under the subscription agreement during the year. Further details of the subscription agreement are set out in note 28(b) to the financial statements.

(vi) Terms of unexpired and unexercised share options at the balance sheet date

Exercise period	Exercise price *HK$*	2007 Number	2006 Number
6 July 2007 to 5 July 2010	1.82	215,000,000	—
11 July 2007 to 10 July 2010	1.82	1,000,000	—
25 September 2007 to 24 September 2010	1.30	12,000,000	—
		228,000,000	—

Each option entitles the holder to subscribe for one share in the Company. Further details of these options are set out in note 28(a) to the financial statements.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by section 40 of the Bermuda Companies Act 1981.

(ii) Contributed surplus

The Group's contributed surplus represents the special reserve arising upon the Group reorganisation in March 1997.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 1(v).

(iv) Statutory surplus reserve

According to the relevant PRC rules and regulations, the subsidiaries of the Group are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the balance of the reserve reaches 50% of their respective registered capital. The transfer to this reserve must be made before distribution of dividends to equity owners of these subsidiaries.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into capital in proportion to existing equity owners' equity percentage, provided that the balance after such issuance is not less than 25% of their registered capital.

(v) Capital reserve

Capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to directors and other eligible participants of the Company and the fair value of discounted shares to be subscribed by the Subscribers pursuant to the subscriptions, both are recognised in accordance with the accounting policy adopted for share based payments in note 1(r)(ii).

(e) Distributability of reserves

The Company had no reserve available for distribution to equity shareholders of the Company as at 31 December 2006 and 2007.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group maintains sufficient capital (which comprises all components of equity) such that net current assets are maintained, i.e. it has the financial resources to repay all its current liabilities in the next year.

The Group is not subject to externally imposed capital requirements.

32. Business combination

(a) Acquisition of subsidiaries

(i) Acquisition of Harbin Songjiang Copper (Group) Company Limited

On 11 March 2007, the Company entered into a sale and purchase agreement with independent third parties to acquire a 75.08% equity interests in Harbin Songjiang Copper (Group) Company Limited and its subsidiaries, which principally engaged in mining and processing of molybdenum, copper and zinc, for a total consideration of RMB1,854,636,000 (equivalent RMB1,807,881,000) satisfied in cash. The acquisition was completed on 5 July 2007. The acquired companies contributed an aggregated revenue of $674,955,000 and aggregate net profit of $97,834,000 to the Group since acquisition. If the acquisition had occurred at the beginning of the year, the Group revenue and profit after taxation would have been $990,316,000 and $241,640,000.

The acquisition had the following effect on the Group's assets and liabilities.

	Carrying values prior to acquisition *HK$'000*	Fair value adjustments *HK$'000*	Carrying values upon acquisition *HK$'000*
Acquiree's net assets at the date of acquisition			
Property, plant and equipment	410,952	262,311	673,263
Construction in progress	58,904	—	58,904
Intangible assets	192,857	2,772,571	2,965,428
Deferred tax assets	66,158	(65,428)	730
Inventories	105,136	217,013	322,149
Trade and other receivables	311,627	—	311,627
Cash and cash equivalents	134,983	—	134,983
Trade and other payables	(240,137)	(24,813)	(264,950)
Bank loans	(276,480)	—	(276,480)
Other loan	(1,026)	—	(1,026)
Defered income	(77,475)	—	(77,475)
Current taxation	(133,903)	—	(133,903)
Deferred tax liabilities	(3,344)	(765,589)	(768,933)
Minority interests	(7,707)	(14,468)	(22,175)
Net assets acquired	540,545	2,381,597	2,922,142
Share of net assets acquired by the Group upon acquisition			2,193,944
Negative goodwill arising on acquisition			(281,622)
Satisfied by:			
— Cash paid			1,854,636
— Costs directly attributable to the purchase			57,686
Total purchase consideration			1,912,322
Cash and cash equivalents acquired			134,983
Purchase consideration settled in cash			(1,912,322)
Net outflow of cash and cash equivalents in respect of the acquisition			(1,777,339)

The excess of net fair value of net assets acquired over the total costs of acquisition is recognised as negative goodwill in the consolidated income statement. Such negative goodwill was primarily resulted from appreciation of fair value of certain fixed assets, intangible assets and inventories at the completion date of acquisition as compared to their respective fair value estimated by management of the Company during the initial stage of the acquisition.

(ii) *Acquisition of Wuhai Derun Ferroalloy Limited Liability Company*

During the year ended 31 December 2007, the Group acquired the entire equity interest in Wuhai Derun Ferroalloy Limited Liability Company ("Wahai Derun") from an independent third party for a consideration of $11,520,000 (equivalent to RMB10,800,000) satisfied in cash.

Wuhai Derun owns a factory building, a leasehold land and certain plant and equipment at the date of acquisition. Wuhai Derun did not have any business operations at the date of acquisition and the underlying set of assets acquired is planned to supply materials to Inner Mongolia Zhongrun Magnesium Co. Ltd., a subsidiary of the Group which is under construction of a magnesiun smelting plant. The acquired company did not have any revenue and expenses since acquisition.

The directors considered that the total purchase consideration paid represented the fair value of net assets acquired.

The acquisition had the following effect on the Group's assets and liabilities:

	Carrying values prior to purchase *HK$'000*	Fair value adjustments *HK$'000*	Carrying values upon purchase *HK$'000*
Acquiree's net assets at the date of acquisition			
Property, plant and equipment	12,904	(2,074)	10,830
Inventories	115	—	115
Trade and other receivables	1,291	—	1,291
Cash and cash equivalents	131	—	131
Trade and other payables	(847)	—	(847)
Net assets acquired	13,594	(2,074)	11,520
Total purchase consideration, satisfied by cash paid			11,520
Cash and cash equivalents acquired			131
Purchase consideration settled in cash			(11,520)
Net outflow of cash and cash equivalents in respect of the acquisition			(11,389)

(b) Purchase of net assets

During the year ended 31 December 2006, the Group acquired a 57% equity interest in Lead Sun Investments Limited and its subsidiaries ("Lead Sun Group") from independent third parties.

Lead Sun Group holds primarily a mining right of an unexploited natural rutile mine with no established infrastructure and no significant mining equipment at the date of acquisition. The underlying set of assets acquired was not integrated in forming a business to generate revenues. As such, the directors are of the opinion that the acquisition of Lead Sun Group is a purchase of net assets which does not constitute a business combination for accounting purposes.

The aggregate purchase consideration of $811,625,000 was in the form of (i) 1,081,480,000 new shares of the Company at $0.4 per share amounted to $432,592,000; (ii) disposal of subsidiaries at their carrying values of $174,033,000; and (iii) a cash consideration of $205,000,000.

The directors considered that the total purchase consideration paid represented the fair value of net assets acquired and the fair value of mining rights, which is presented as intangible assets below, is considered as the excess of fair value of net assets acquired over the fair value of net tangible assets acquired.

The purchase had the following effect on the Group's assets and liabilities:

	Carrying values prior to purchase *HK$'000*	**Fair value adjustments** *HK$'000*	**Carrying values upon purchase** *HK$'000*
Acquiree's net assets at the date of acquisition			
Property, plant and equipment	753	—	753
Intangible assets	69,122	1,606,662	1,675,784
Trade and other receivables	217	—	217
Cash and cash equivalents	1,047	—	1,047
Amount due from a minority shareholder	14,204	—	14,204
Trade and other payables	(73,360)	—	(73,360)
Minority interests	(13,226)	(782,188)	(795,414)
Net assets acquired	(1,243)	824,474	823,231
Satisfied by:			
— Shares issued			432,592
— Carrying values of subsidiaries disposed *(note 32(c)(ii))*			174,033
— Cash paid			205,000
— Costs directly attributable to the purchase			11,606
Total purchase consideration			823,231
Cash and cash equivalents acquired			1,047
Purchase consideration settled in cash			(216,606)
Net outflow of cash and cash equivalents in respect of the purchase of net assets			(215,559)

(c) Disposal of subsidiaries

(i) Disposal of Alukeerqinqi Manitu Silver & Tin Mining Co. Ltd

During the year ended 31 December 2007, the Group disposed of its 60% equity interests in Alukeerqinqi Manitu Silver & Tin Mining Co. Ltd to Chifeng Jinjian Copper Company Limited, the minority shareholders of the Group, at a cash consideration of $534,000.

Net assets disposed of at the date of disposal:

	HK$'000
Property, plant and equipment	2,473
Deferred tax assets	310
Trade and other receivables	999
Trade and other payables	(3,248)
Net assets disposed of	534
Satisfied by cash	534
Net inflow of cash and cash equivalent in respect of disposed subsidiary	534

(ii) Disposal of INNOMAXX Property (BVI) Limited and GITIC Properties Limited

During the year ended 13 December 2006, the Group disposed of INNOMAXX Property (BVI) Limited and GITIC Properties Limited at their carrying values of $174,033,000 upon purchase of net assets of Lead Sun Group as set out in note 32(b). There is no gain or loss on disposal.

Net assets disposed of at the date of disposal:

	HK$'000
Property, plant and equipment	177
Investment properties	140,594
Trade and other receivables	29,548
Pledged bank deposits	14,416
Trade and other payables	(3,100)
Current taxation	(432)
Deferred tax liabilities	(7,170)
Net assets disposed	174,033

The investment properties were revalued as at 31 July 2006 on an open market value basis. The valuation was carried out by an independent firm of surveyors, Greater China Appraisal Limited, who has among their staff Registered Professional Surveyors in Hong Kong with substantial experience in valuation of property interest in the PRC since 1992. Accordingly, a valuation gain of $15,794,000 was recognised in the profit for the year ended 31 December 2006 from discontinued operations.

33. Financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and bill receivables. For both mining operations and processing and storage of cord blood, in order to minimise the credit risk, the management of the Group has reviewed the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made to irrecoverable amounts.

In respect of mining operations, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 90 days from the date of billing. Billings to customers are normally made immediately after the date of delivery except for billings to copper and zinc customers which are made after 1 to 2 months from the date of delivery when metal contents are tested and confirmed by the customers. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted. Overseas customers are required to settle in cash on delivery. Normally, the Group does not obtain collateral from customers.

At the balance sheet date, the Group has a certain concentration of credit risk as 19% and 65% of the total trade debtors and bills receivable were due from the Group's largest customer and the five largest customers as at 31 December 2007 respectively within the mining operation segments.

Cash and cash equivalents are normally placed with licensed banks in Hong Kong and the PRC that have a credit rating equal to or better than the Group. Given their high credit ratings, management does not expect any licensed bank to fail to meet its obligations.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheets. Except for the financial guarantees given by the Group as set out in note 35(d), the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in note 35(d).

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer terms. The Group also monitors closely the cash flows of its subsidiaries. Generally, the Group's subsidiaries are required to obtain the Group's approval for activities such as investment of surplus cash, raising of loans and fixed assets acquisitions beyond certain limits.

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

The Group

	2007					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	373,116	394,589	260,643	44,328	88,657	961
Bank loans	212,800	231,890	139,414	58,575	33,901	—
Other loans	5,643	6,810	1,184	117	766	4,743
Loans from minority shareholders	150,500	150,500	150,500	—	—	—
	742,059	783,789	551,741	103,020	123,324	5,704
The Company						
Trade and other payables	21,578	21,578	21,578	—	—	—

The Group

	2006					
	Carrying amount *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Within 1 year or on demand *HK$'000*	More than 1 year but less than 2 years *HK$'000*	More than 2 years but less than 5 years *HK$'000*	More than 5 years *HK$'000*
Trade and other payables	54,420	62,517	22,517	10,000	20,000	10,000
Bank loans	—	—	—	—	—	—
Other loans	—	—	—	—	—	—
Loans from minority shareholders	150,500	150,500	150,500	—	—	—
	204,920	213,017	173,017	10,000	20,000	10,000
The Company						
Trade and other payables	5,898	5,898	5,898	—	—	—

(c) Foreign currency risk

(i) The Group is exposed to foreign currency risk primarily through certain sales that are denominated in currencies other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States Dollars ("USD"). The Group ensures that the net exposure is kept to an acceptable level by selling USD at spot rate where necessary.

(ii) *Exposure to currency risk*

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate:

The Group

	2007		2006	
	United States Dollars *'000*	Hong Kong Dollars *'000*	United States Dollars *'000*	Hong Kong Dollars *'000*
Trade and other receivables	2,160	—	—	—
Cash and cash equivalents	—	52	2	132,757
Overall net exposure	2,160	52	2	132,757

The Company

	2007		2006	
	United States Dollars *'000*	Hong Kong Dollars *'000*	United States Dollars *'000*	Hong Kong Dollars *'000*
Cash and cash equivalents	—	—	2	—
Overall net exposure	—	—	2	—

(iii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

The Group

	2007		2006	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits** *'000*	**Increase/ (decrease) in foreign exchange rates**	**Effect on profit after tax and retained profits** *'000*
United States Dollars	8%	866	8%	—
	(8)%	(866)	(8)%	—
Hong Kong Dollars	8%	4	8%	10,670
	(8)%	(4)	(8)%	(10,670)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong Dollar and the United States Dollar would be materially unaffected by any changes in movement in value of the United States Dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit after tax measured in the respective functional currencies, translated into Hong Kong Dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

(d) Interest rate risk

The Group's interest risk arises primarily from cash and cash equivalents and long term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's interest-bearing financial liabilities and interest-earning financial assets at the balance sheet date.

	The Group				The Company			
	2007		2006		2007		2006	
	Effective interest rate %	*HK$'000*	Effective interest rate %	*HK$'000*	Effective interest rate %	*HK$'000*	Effective interest rate %	*HK$'000*
Cash and cash equivalents	0.72-5.90	1,247,594	0.72-4.62	449,087	2.00-5.90	695,932	3.1-4.62	266,813
Bank loans	6.48-7.23	212,800	—	—	—	—	—	—
Other loan	2.55	4,576	—	—	—	—	—	—

(ii) Sensitivity analysis

At 31 December 2007, it is estimated that a general increase/decrease of 150 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately $13,422,000 (2006: $6,736,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 150 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(e) Fair values

The fair values of all financial assets and liabilities are not materially different from their carrying amounts.

(f) Estimation of fair value of financial guarantees

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

(g) Business risk

During the year, the manufacturing procedures of ferro molybdenum, the molybdenum product of the Group, are sub-contracted to two independent third party contractors. In addition, all export sales of the Group's products are made through the sole sales agent. Although the Group believes that it maintains good relationships with these sub-contractors and sales agent, there can be no assurance that these parties will continue to provide the manufacturing and sales agent services to the Group on normal commercial terms as and when needed. In the event that these parties ceased to provide manufacturing and sales agent services to the Group and the Group could not secure the provision of such services, the Group's turnover and profitability might be affected.

As disclosed in note 14, the mining rights of certain mines operated by the Group are state-owned and the Group is in the process in transferring the status of these mining rights from state-owned to privately-owned. Although the Group believes that the status of mining rights can be transferred to privately-owned, there can be no assurance that the relevant government authorities will approve the transfer. In the event that the relevant government authorities decline the application made by the Group for the transfer of mining rights, the Group's operation might be adversely affected. In addition, the Group believes that no additional fee will be charged by the relevant government authorities for the exploitation of mineral resources during the year, any additional fee charged will be adversely affected the results of the Group.

34. Loans to officers

Loans to officers of the Group disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Name of borrower	**Mr Su Qing Yu**	**Mr Qiao Hong Bo**	**Mr Qu Yan Chun**
Position	**Deputy Manager**	**Deputy Manager**	**Deputy Manager**
Terms of the loan			
— duration and repayment terms	3 years	3 years	3 years
— loan amount	$975,479	$1,200,117	$446,103
— interest rate	6.58%	6.58%	6.58%
— security	None	None	None
Balance of the loan			
— At 1 January 2007	Nil	Nil	Nil
— At 31 December 2007	$975,479	$223,054	$446,103
Maximum balance outstanding			
— during 2007	$975,479	$1,200,117	$446,103

There was no amount due but unpaid, nor any provision made against the principal amount of or interest on these loans at 31 December 2007.

35. Commitments and contingencies

(a) Capital commitments

(i) Capital commitments outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	The Group		**The Company**	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted for	32,813	4,872	—	—
Authorised but not contracted for	1,206,899	788,801	—	—
	1,239,712	793,673	—	—

Included in the capital commitments is an amount of $826,751,000 (2006: $793,673,000) related to the development of mining, processing and smelting facilities at Shanxi Dai County Rutile mine.

(ii) Other commitments

At 31 December 2007, the company had commitments to contribute capital of $7,722,000 (2006: $Nil) to a jointly controlled entity.

(b) Operating lease commitments

(i) As lessee

At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases in respect of rented premises are payable as follows:

	The Group		The Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	3,851	2,847	1,484	1,247
After 1 year but within 5 years	4,873	194	804	—
	8,724	3,041	2,288	1,247

(ii) As lessor

At 31 December 2007, the total future minimum lease payments contracted with tenants are as follows:

	The Group		The Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	—	300	—	300

(c) Environmental contingencies

To date, the Group has not incurred any significant expenditures for environment remediation and has not accrued any amounts for environmental remediation relating to its mining operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include: (i) the exact nature and extent of the contamination at various sites including, but not limited to mines and processing plants whether operating, closed and sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present and could be material. The Group has incurred $200,000 in respect of environment remediation during the year.

(d) Financial guarantees issued

As disclosed in note 25, certain bank loans of the Group as at 31 December 2007 were guaranteed by a third party. In return, a subsidiary of the Group have provided guarantees for banking facilities up to $53,333,000 (equivalent to RMB50,000,000) and certain bank loans totalling $53,333,000 (equivalent to RMB50,000,000) respectively in favour of the same third party.

The guarantees cover the repayment of loan principal and related interest payments. If the guaranteed party defaults on debt payments, the subsidiaries are required to perform under the guarantees. As at 31 December 2007, the Director do not considered it probable that a claim will be made against the subsidiaries under the guarantees and the estimated fair value of the Group's standby commitment is not material.

36. Material related party transactions

During the year, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
Chifeng Jinjian Copper Company Limited ("Chifeng Jinjian")	Minority shareholder

Particulars of significant transactions between the Group and the above related party during the year are as follows:

(a) Recurring transactions

	2007	2006
	HK$'000	*HK$'000*
Sales of goods to Chifeng Jinjian	94,467	—

(b) Non-recurring transactions

	2007	2006
	HK$'000	*HK$'000*
Disposal of a subsidiary to Chifeng Jinjian	534	—

(c) Guarantees

A guarantee of $128,000,000 (equivalent to RMB120,000,000) was given by Chifeng Jinjian to a subsidiary of the Group against certain bank loans totalling $128,000,000 (equivalent to RMB120,000,000) as at 31 December 2007 as disclosed in note 25.

(d) Exploration rights

Exploration in certain locations in Inner Mongolia are conducted by the Group during the year ended 31 December 2007. The exploration rights are provided by Chifeng Jinjian to the Group at no cost. Expenditure of $7,318,000 (equivalent to RMB6,861,000) has been incurred for the exploration in such locations and capitalised as exploration and evaluation assets included in intangible assets (see note 14).

(e) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors and certain of the highest paid employees as disclosed in note 7 and 8, is as follows:

	2007	2006
	HK$'000	*HK$'000*
Short-term employee benefits	11,010	2,892
Post-employment benefits	118	103
Equity compensation benefits	142,520	—
	153,648	2,995

Total remuneration is included in "staff costs" (see note 5(b)).

37. Significant accounting estimates and judgements

The methods, estimates and judgements the directors use in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. Certain critical accounting judgements in applying the Group's accounting policies are described below.

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(b) Impairment

In identifying whether indications of impairment losses exist for property, plant and equipment, lease prepayments and construction in progress, the directors are of the opinion that the privately-owned mining rights can be obtained. It is possible that the relevant government authorities may decline the Group's application for the transfer of mining rights from stated-owned to privately-owned, which would affect the conclusion of the above judgement, in which case impairment losses for such assets may be required.

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, lease prepayments, intangible assets, construction in progress and investments in its subsidiaries and jointly controlled entites, recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

Impairment losses for bad and doubtful debts are assessed and provided based on the Group's regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the management when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for trade and other receivables would affect the income statement in future years.

(c) Impairment losses for goodwill

Internal and external sources of information are reviewed by the Group at each balance sheet date to assess whether there is any indication that goodwill may be impaired. If any such indication exists, the recoverable amount of the goodwill is estimated. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value at balance sheet date. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The Group estimates the net realisable value for finished goods and work in progress based primarily on the latest invoice prices and current market conditions.

(e) ***Recognition of deferred tax assets***

Deferred tax assets in respect of tax losses carried forward are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the balance sheet date. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and requires significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

(f) ***Reserve estimates***

As explained in policy notes 1(h) and 1(j), mining shafts, mining rights and exploration and evaluation assets and mining development assets ("mining assets") are amortised using a units of production method based on the proven and probable mineral reserve.

Engineering estimates of the Group's mineral reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There is Chinese system, which is the national standard set by the PRC Government, regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proved" and "probable". Proved and probable reserve estimates are updated on a regular basis and have taken into account recent production and technical information about each mine. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation and amortisation rates.

Despite the inherent imprecision in these engineering estimates these estimates are used in determining depreciation and amortisation expenses and impairment loss. Depreciation and amortisation rates are determined based on estimated proved and probable mineral reserve quantity ("the denominator") and capitalised costs of mining shafts and mining rights ("the numerator"). The capitalised cost of mining assets are amortised based on the units of production.

38. Non-adjusting post balance sheet events

On 11 April 2008, the board of the Company approved a proposal to apply the contributed surplus and the accumulated losses of the Company to eliminate the audited accumulated losses of the Company of $454,034,000 as at 31 December 2006 (the "Reduction"). The directors of the Company consider that the Reduction will give the Company more flexibility to declare dividends to the shareholders of the Company in the earliest opportunity in the future as and when the board of the Company considers appropriate. The Reduction is subject to the shareholders' approval and the compliance with the requirements of relevant section of the Bermuda Companies Act 1981. No adjustment has been made in the financial statements related to the Reduction.

39. Litigation

(a) As set out in the announcement of the Company dated 8 August 2007, the Company became aware of a litigation instituted in Shenzhen City Middle People's Court (深圳市中級人民法院) (the "Shenzhen City Court") between two former shareholders of Top Rank International Group Limited ("Top Rank"), a subsidiary of the Company (the "Unrelated Litigation"). Insofar as the Company is aware and based on legal advice obtained from the Company's PRC legal adviser, the Unrelated Litigation involves a dispute between two individuals, both of whom are third parties independent of the Company and its connected persons, regarding the transfer of 20% of the issued share capital in Top Rank; none of the Company, Top Rank, or any other subsidiaries of the Company or any of their respective directors and/or employees is a party to the Unrelated Litigation; and the Unrelated Litigation does not involve any allegation against the Company, any of its subsidiaries, or their respective directors and/or employees.

As far as the Company is aware, the Unrelated Litigation involves a dispute regarding the transfer of 20% of the issued share capital in Top Rank (the "Share Transfer") amongst former shareholders of Top Rank, and the plaintiff has made allegations with respect to the authenticity and the legality of the procedures involving the Share Transfer. As advised by the PRC legal adviser of the Company, insofar as Top Rank is concerned, the Shenzhen City Court has made orders (the "Orders") for the former handling agent of Top Rank to (i) preserve the records relating to registration, annual audit and transfer of shares; and (ii) prohibit from arranging for or assisting in the transfer of shares in Top Rank. Based on legal advice sought by the Company from its PRC legal adviser, none of the assets or shares of any member of the Group were sealed up or frozen pursuant to any court orders.

According to legal advice obtained by the Company from its BVI legal adviser and based on the statutory records of Top Rank, Lead Sun Investments Limited ("Lead Sun"), a subsidiary of the Company, has since 1 June 2006 been the legal owner of the entire issued share capital of Top Rank. As such, according to the Company's PRC legal adviser, the Orders do not have any effect on the ownership of Top Rank by Lead Sun as such Orders were made after Lead Sun has become the owner of Top Rank. For the reasons above and based on legal advice obtained from the Company's BVI legal adviser and the PRC legal adviser, the directors of the Company are of the view that the Company has proper and valid title in Top Rank, which owns 90% equity interest in Shanxi Shenli Aerospace Titanium Company Limited ("Shanxi Shenli"), a subsidiary of the Company which holds the Shanxi Dai County Rutile mine.

To the best knowledge of the directors of the Company, all the claims made by the plaintiff in respect of the Unrelated Litigation were rejected by the Shenzhen City Court pursuant to a judgement (民事判決書(2007)深中法民四初字第20號) made on 17 December 2007.

(b) On 9 August 2007, the Company received a writ issued by the Shenzhen City Court on 6 August 2007 together with a statement of claim dated 2 August 2007 pursuant to which Mr. Tang Yan was the plaintiff (the "Plaintiff"), and Mr. Tse Michael Nam ("Mr. Tse") and Mr. Huang Shi Lin ("Mr. Huang"), being two former shareholders (previously holding 80% and 20%, respectively, of the issued share capital) of Top Rank, together with Lead Sun, Shanxi Shenli and the Company were named as defendants in a litigation concerning the transfer of shares in Top Rank, amongst former shareholders of Top Rank (the "Litigation").

Pursuant to the statement of claim dated 2 August 2007, the Plaintiff claimed for an order involving the following: (i) to invalidate the agreement effecting the transfer of shares from the former shareholders to Lead Sun; (ii) Mr. Tse to transfer the shares in Top Rank back to the Plaintiff at US$1; (iii) the defendants to issue an apology to the Plaintiff; and (iv) the defendants to jointly bear the legal costs in relation to the Litigation.

As advised by the PRC legal adviser of the Company, the direct claims made to the Company only involve (iii) and (iv) above, and which is to issue an apology to the Plaintiff and bear legal costs in relation to the Litigation.

A judgement was made by the Shenzhen City Court on 17 December 2007 (the "Judgement") pursuant to which: (1) all claims of the Plaintiff were rejected; (2) the counter-claims of each of Lead Sun and Shanxi Shenli were rejected; (3) as the Company has no direct relationship whatsoever in relation to the dispute involving the Share Transfer, the joining of the Company as one of the co-defendants by the Plaintiff is not appropriate, and as such, the Plaintiff was ordered to bear the notarisation and translation costs of the Company which were necessarily incurred by the Company in connection with the Litigation; and (4) the other counter-claims of the Company were rejected.

(c) On 6 March 2008, the Company has received a copy of the Application for Civil Appeal (民事上訴狀) (the "Application") dated 3 March 2008 issued by the Plaintiff and which has been lodged with the Guangdong Province High Court, pursuant to which the Plaintiff has made an application to the Guangdong Province High Court to appeal for the revocation of the orders (2) and (3) of the Judgement made against the Plaintiff as stated in paragraph (b) above and for the support of all claims of the Plaintiff.

Based on advice from the Company's PRC legal adviser, no new evidence has been submitted by the Plaintiff in the Application and it is unlikely that the PRC courts will support the Plaintiff's claims against the Company and its relevant subsidiaries. The directors of the Company do not anticipate any significant adverse impact on the financial position or operating results of the Group resulting from the Application up to the date of this report. The directors of the Company are of the view that the Group has proper and valid defences to the claims, and accordingly, no provision has been accounted for in this financial report.

40. Comparative figures

Certain Comparative figures have been reclassified to conform with current years' presentation.

41. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

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

In addition, HKFRS 8, *Operating segments*, which is effective for annual periods beginning on or after 1 January 2009, may result in new or amended disclosures in the financial statements.

3. UNAUDITED INTERIM FINANCIAL INFORMATION

Set out below are the unaudited consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity of the Group and the consolidated cash flow statement, together with the notes to the financial statements of the Group as extracted from the interim report of the Company for the six months ended 30 June 2008. References to page numbers in this section are to the page numbers of such interim report of the Company.

Consolidated Income Statement
For the six months ended 30 June 2008 — Unaudited

		Six months ended 30 June	
		2008	**2007**
	Note	*HK$'000*	*HK$'000*
Turnover	*3*	287,029	9,920
Cost of sales		(148,563)	(4,441)
Gross profit		138,466	5,479
Other revenue		16,048	7,169
Other net income		1,004	—
Selling expenses		(6,317)	(2,188)
Administrative expenses		(110,914)	(14,432)
Impairment losses on fixed assets and construction in progress		(34,348)	—
Impairment losses on intangible assets		(828,733)	—
Loss from operations		(824,794)	(3,972)
Finance costs	*4(a)*	(13,197)	(1,025)
Loss before taxation	*4*	(837,991)	(4,997)
Income tax	*5*	(31,930)	—
Loss for the period		(869,921)	(4,997)
Attributable to:			
Equity shareholders of the Company		(465,239)	(2,598)
Minority interests		(404,682)	(2,399)
Loss for the period		(869,921)	(4,997)
Loss per share — basic	*6(a)*	7.72 cents	0.05 cents
Loss per share — diluted	*6(b)*	7.71 cents	0.05 cents

Consolidated Balance Sheet
At 30 June 2008 — Unaudited

	Note	At 30 June 2008 HK$'000	At 31 December 2007 HK$'000
Non-current assets			
Fixed assets			
— Property, plant and equipment	8	481,982	460,609
— Interests in leasehold land held for own use under operating leases	9	307,874	316,658
Construction in progress	10	100,556	87,496
Intangible assets	11	4,219,936	4,808,088
Goodwill		8,200	8,200
Interest in jointly controlled entities		—	—
Other receivables	13(a)	82,065	92,246
Available-for-sale securities		14,292	—
Deferred tax assets		2,568	1,514
		5,217,473	5,774,811
Current assets			
Inventories	12	141,165	46,223
Trade and other receivables	13(b)	411,084	370,711
Cash and cash equivalents		1,092,623	1,247,594
		1,644,872	1,664,528
Current liabilities			
Trade and other payables	14	324,698	256,130
Deferred income	15(a)	64,255	53,814
Bank loans	16	124,305	127,467
Other loans		1,135	1,067
Loans from minority shareholders		150,500	150,500
Current taxation		110,365	184,261
		775,258	773,239
Net current assets		869,614	891,289
Total assets less current liabilities		6,087,087	6,666,100

	Note	At 30 June 2008 HK$'000	At 31 December 2007 HK$'000
Non-current liabilities			
Other payables	*17*	95,092	116,986
Deferred income	*15(b)*	83,657	79,976
Bank loans	*16*	90,816	85,333
Other loans		4,870	4,576
Deferred tax liabilities		733,382	726,195
		1,007,817	1,013,066
NET ASSETS		5,079,270	5,653,034
CAPITAL AND RESERVES			
Share capital	*18*	602,665	602,665
Reserves	*19*	3,120,175	3,390,227
Total equity attributable to equity shareholders of the Company		3,722,840	3,992,892
Minority interests		1,356,430	1,660,142
TOTAL EQUITY		5,079,270	5,653,034

Consolidated Statement of Changes in Equity
For the six months ended 30 June 2008 — Unaudited

	Attributable to equity shareholders of the Company										
	Share capital	Share premium	Merger reserve	Capital reserve	Exchange reserve	Fair value reserve	Statutory surplus reserve	Accumu-lated losses	Sub-total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	472,078	846,713	152,150	—	9,631	—	—	(359,000)	1,121,572	810,848	1,932,420
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	—	—	—	—	21,998	—	—	—	21,998	23,397	45,395
Shares issued in respect of share placing *(note 18)*	130,587	2,324,452	—	—	—	—	—	—	2,455,039	—	2,455,039
Share issue expenses *(note 18)*	—	(90,596)	—	—	—	—	—	—	(90,596)	—	(90,596)
Loss for the period	—	—	—	—	—	—	—	(2,598)	(2,598)	(2,399)	(4,997)
At 30 June 2007	602,665	3,080,569	152,150	—	31,629	—	—	(361,598)	3,505,415	831,846	4,337,261
At 1 January 2008	602,665	3,080,571	152,150	142,976	161,233	—	26,372	(173,075)	3,992,892	1,660,142	5,653,034
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	—	—	—	—	204,730	—	—	—	204,730	101,063	305,793
Share based payments	—	—	—	(3,470)	—	—	—	17,756	14,286	—	14,286
Transfer to other reserves	—	—	—	—	—	—	68,284	(90,954)	(22,670)	22,670	—
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	—	(22,763)	(22,763)
Changes in fair value of available-for-sale securities	—	—	—	—	—	(1,159)	—	—	(1,159)	—	(1,159)
Reduction of share premium *(note 19)*	—	(219,091)	(234,944)	—	—	—	—	454,035	—	—	—
Loss for the period	—	—	—	—	—	—	—	(465,239)	(465,239)	(404,682)	(869,921)
At 30 June 2008	602,665	2,861,480	(82,794)	139,506	365,963	(1,159)	94,656	(257,477)	3,722,840	1,356,430	5,079,270

Condensed Consolidated Cash Flow Statement
For the six months ended 30 June 2008 — Unaudited

	Six months ended 30 June	
	2008	**2007**
	HK$'000	*HK$'000*
Net cash used in operating activities	(112,406)	(12,701)
Net cash used in investing activities	(36,676)	(1,873,952)
Net cash (used in)/generated from financing activities	(21,624)	2,363,419
Net (decrease)/increase in cash and cash equivalents	(170,706)	476,766
Cash and cash equivalents at 1 January	1,247,594	449,087
Effect of foreign exchange rate changes	15,735	2,710
Cash and cash equivalents at 30 June	1,092,623	928,563

Notes to the Interim Financial Report — Unaudited

1. Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance on 26 September 2008.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2007 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company.

The financial information relating to the financial year ended 31 December 2007 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2007 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 11 April 2008.

2. New and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the Group. The board of directors of the Company have determined the accounting policies to be adopted in the preparation of the Group's annual financial statements prepared under HKFRSs for the year ending 31 December 2008, on the basis of HKFRSs currently in issue.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements prepared under HKFRSs for the year ending 31 December 2008 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies applied in this interim financial report for the periods presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 23).

3. **Segment information**

Business Segments

The principal activities of the Group are mining operations and processing and storage of cord blood.

The analysis of the principal activities of the operations of the Company and its subsidiaries are as follows:

For the six months ended 30 June 2008

	Processing and storage of blood	Mining					
		Molybdenum	Copper and Zinc	Rutile	Others	Sub-total	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:							
Turnover from external customers	12,416	216,892	51,164	—	6,557	274,613	287,029
Other revenue from external customers	—	984	4,409	—	431	5,824	5,824
	12,416	217,876	55,573	—	6,988	280,437	292,853
Segment result	(348)	99,960	(25,803)	(800,351)	(9,590)	(735,784)	(736,132)
Unallocated operating income and expenses							(88,662)
Loss from operations							(824,794)
Finance costs							(13,197)
Loss before taxation							(837,991)
Taxation							(31,930)
Loss after taxation							(869,921)

For the six months ended 30 June 2007

	Processing and storage of cord blood	Mining Rutile	Total
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue:			
Turnover from external customers	9,920	—	9,920
Segment result	480	(4,927)	(4,447)
Unallocated operating income and expenses			475
Loss from operations			(3,972)
Finance costs			(1,025)
Taxation			—
Loss for the period			(4,997)

Geographical segments

The following table provides a geographical analysis of the Group's turnover according to the location of customers:

	Six months ended 30 June	
	2008	**2007**
	HK$'000	*HK$'000*
Turnover		
Hong Kong	12,416	9,920
The PRC	157,057	—
Europe	110,134	—
Korea	7,422	—
	287,029	9,920

4. loss before taxation

Loss before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
(a) Finance costs:		
Interest on bank loans wholly repayable within five years	8,157	—
Interest expense on financial liabilities measured at amortised cost	5,040	1,025
	13,197	1,025
(b) Other items:		
Depreciation on property, plant and equipment	13,352	764
Amortisation		
— interests in leasehold land held for own use under operating leases	3,250	—
— intangible assets	53,437	—
Net foreign exchange loss	1,522	3,326
Operating lease charges		
— land and buildings	1,706	2,093
— office equipment	18	17
Impairment losses		
— property, plant and equipment	5,098	—
— interests in leasehold land held for own use under operating leases	25,035	—
— construction in progress	4,215	—
— intangible assets	828,733	—
— trade and other receivables	446	236
Government grants	(5,824)	—
Interest income	(10,075)	(7,168)

5. Income tax

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
Current tax — PRC Enterprise Income Tax		
Provision for the period	71,019	—
Deferred tax		
Origination and reversal of temporary differences	(39,089)	—
	31,930	—

The provision for PRC Enterprise Income Tax has been calculated based on the estimated taxable income at a rate of 25% during the period.

No provision for Hong Kong Profits Tax has been made as the Group's operations in Hong Kong sustained a loss for Hong Kong Profits Tax purposes during the current and prior periods.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("the New Tax Law"), which became effective on 1 January 2008. Furthermore, the State Council of the PRC passed the implementation guidance ("the Implementation Guidance") on 26 December 2007, which sets out the details of how the existing preferential income tax rate will be adjusted to the standard rate of 25%. According to the New Tax Law, from 1 January 2008, the applicable corporate income tax rates for enterprises in the PRC will be reduced from 33% to 25%. Subsidiaries of the Group incorporated in the PRC except for the entity described below will be subject to corporate income tax rate of 25%, effective on 1 January 2008.

Any unutilised tax holidays will continue until expiry and tax holidays which have not commerced due to losses in prior years are deemed to have started from 1 January 2008, even if the entity is not yet reporting a profitable year. In view of the new regulations, Shanxi Shenli Aerospace Titanium Company Limited's tax holidays commenced on 1 January 2008.

In addition, under the New Tax Law, with effect from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in PRC, will be subject to withholding income tax at the rate of 10% on various types of passive income such as dividends derived from sources in the PRC. On 22 February 2008, the Minister of Finance and State Administration of Tax approved Caishui (2008) No.1, pursuant to which dividend distribution out of pre-2008 retained earnings of foreign investment enterprises will be exempted from withholding income tax. Withholding income tax on estimate dividends of $35,014,000 has been recognised in respect of the profits derived in the PRC during the six months ended 30 June 2008.

6. Loss per share

(a) Basic loss per share

The calculation of basic earnings per share for the six months ended 30 June 2008 is based on the loss attributable to equity shareholders of the Company of $465,239,000 (six months ended 30 June 2007: $2,598,000) and the weighted average number of shares in issue during the six months ended 30 June 2008 of 6,026,653,000 (six months ended 30 June 2007: weighted average number of 4,735,210,000), calculated as follows:

Weighted average number of ordinary shares

	Six months ended 30 June	
	2008	**2007**
	('000)	*('000)*
Issued ordinary shares at 1 January	6,026,653	4,720,781
Effect of shares issued	—	14,429
Weighted average number of ordinary shares at 30 June	6,026,653	4,735,210

(b) Diluted loss per share

The calculation of diluted earnings per share for the six months ended 30 June 2008 is based on the loss attributable to equity shareholders of the Company of $465,239,000 and the weighted average number of shares in issue during the six months ended 30 June 2008 of 6,032,352,000, after adjusting for the effect of dilutive potential ordinary shares under the Company's share option scheme.

There were no dilutive potential ordinary shares during the six months ended 30 June 2007 and, therefore, diluted earnings per share is the same as the basic loss per share.

7. Dividend

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: $Nil).

8. Property, plant and equipment

During the six months ended 30 June 2008, the Group acquired items of property, plant and equipment with a cost of $6,479,000 (six months ended 30 June 2007: $3,894,000) and transferred items from construction in progress with a cost of $5,628,000 (six months ended 30 June 2007: $Nil). Items of plant and machinery with a net book value of $43,000 were disposed of during the six months ended 30 June 2008 (six months ended 30 June 2007: $Nil), resulting in a gain on disposal of $13,000 (six months ended 30 June 2007: $Nil).

During the six months ended 30 June 2008, the Group has terminated the operation of Nuoergai Copper Mine (note 11(b)). As a result, the directors of the Company assessed the recoverable amount of those property, plant and equipment located at the mine. Based on the assessment, impairment losses of $5,098,000 were made to property, plant and equipment during the six months ended 30 June 2008.

9. Interests in leasehold land held for own use under operating leases

In accordance with Urban Real Estate Administration Law of the PRC, the local government authority can withdraw the land use right without providing any compensation to the owner if no development is carried out within two years since the issuance of such land use right certificate. After considering the costs and benefits in developing the leasehold lands held by the Group, the directors of the Company decided not to pursue with the development of three pieces of land located in Harbin and Inner Mongolia, the PRC. During the six months ended 30 June 2008, the land use right certificate of one of these leasehold lands has been withdrawn by the local government authority. Accordingly, full impairment losses of $25,035,000 were made to such leasehold lands during the six months ended 30 June 2008.

10. Construction in progress

Construction in progress comprises costs incurred on property, plant and equipment not yet completed at 30 June 2008 in respect mining, processing and smelting facility located at various locations in the PRC.

During the period, the Group terminated the exploration in certain locations (note 11(a)) in Inner Mongolia, the PRC. As a result, the directors of the Company assessed the recoverable amount of those constructions in progress in such locations. Based on the assessment, impairment losses of $4,215,000 were made to these constructions in progress during the six months ended 30 June 2008.

11. Intangible assets

Intangible assets represent exploration and evaluation assets, mining rights and exploration rights.

(a) Exploration and evaluation assets

The Group has performed exploration in certain locations in Inner Mongolia, the PRC, in the current and prior periods. After evaluating the exploration results, the directors of the Company considered that it is not commercially viable to continue the exploration in such locations and the related exploration and evaluation assets should be impaired. Accordingly, impairment losses of $12,613,000 were made during the six months ended 30 June 2008.

(b) Mining rights

In view of the decrease in market price of rutile-related products and the increase in the construction costs and land lease premium during the period, the directors of the Company decided to temporarily suspend the development of Shanxi Dai County Rutile Mine and the construction of related mining facilities, processing plant and production plant. As a result, the directors of the Company assessed the recoverable amount of the mining right of Shanxi Dai County Rutile Mine. Based on the assessment, the carrying amount of the mining right of Shanxi Dai County Rutile Mine was written down by $799,897,000 during the six months ended 30 June 2008.

In addition, as the quality of mineral resources extracted from Nuoergai Copper Mine is not satisfactory for continuing its mining and processing operation, the directors of the Company decided to terminate the operation of Nuoergai Copper Mine. Accordingly, full impairment loss of $16,223,000 was made to the mining right of Nuoergai Copper Mine during the six months ended 30 June 2008.

12. Inventories

	At 30 June 2008 *HK$'000*	**At 31 December 2007** *HK$'000*
Raw materials	12,843	7,451
Work in progress	14,025	10,221
Finished goods	80,784	10,763
Goods in transit	33,513	17,788
	141,165	46,223

13. Trade and other receivables

(a) Non-current other receivables comprise:

	Note	**At 30 June 2008** *HK$'000*	**At 31 December 2007** *HK$'000*
Downpayments	*(i)*	14,741	13,972
Loans and advances to business associate	*(ii)*	67,324	71,500
Loans to employees and officers		—	6,774
		82,065	92,246

Notes:

(i) Downpayments were paid to relevant local authorities for the acquisition of leasehold lands located in Heilongjiang and Shanxi, the PRC.

(ii) Loans and advances to business associates are unsecured, interest-free and repayable within 2009.

(b) ***Current trade and other receivables (net of allowance for doubtful debts) comprise:***

	At 30 June 2008 *HK$'000*	**At 31 December 2007** *HK$'000*
Trade debtors and bills receivable	294,942	300,027
Other receivables	21,973	24,035
Amount due from export sales agent	57,634	16,827
Amount due from jointly controlled entities	588	217
Amount due from minority shareholders	1,135	1,067
Deposits and prepayments	34,812	28,538
	411,084	370,711

Included in current trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	At 30 June 2008 *HK$'000*	**At 31 December 2007** *HK$'000*
0 to 30 days	181,068	169,897
31 to 60 days	50,830	66,874
61 to 90 days	11,690	34,692
Over 90 days	51,354	28,564
	294,942	300,027

Included in trade receivables of the Group are amount due from a minority shareholder of $14,359,000 (31 December 2007: $30,227,000), details of the transactions are disclosed in note 21(a).

Included in other debtors of the Group are amounts totalling $8,525,000 (31 December 2007: $7,965,000) which represent loans to business associates. All loans are unsecured, interest-free and repayable on demand except for a loan with a remaining balance of $4,212,000 (31 December 2007: $3,741,000) as at 30 June 2008 which is interest bearing with a fixed interest rate of 10% per annum and secured by a building together with the related land use right located in Harbin, the PRC.

Amount due from export sales agent represents settlements received from overseas customers by the export sales agent on behalf of the Group. Such amounts are unsecured, interest-free and expected to be recovered within one year.

The amounts due from jointly controlled entities and minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

All of the other trade and other receivables, apart from those mentioned in the above and certain deposits and prepayments of $1,172,000 (31 December 2007: $1,141,000), are expected to be recovered or recognised as expense within one year.

Management of the Group has reviewed the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made to irrecoverable amounts.

In respect of mining operations, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 90 days from the date of billing. Billings to customers are normally made immediately after the date of delivery except for billings to copper and zinc customers which are made after 1 to 2 months from the date of delivery when metal contents are tested and confirmed by the customers. Overseas customers are required to settle in cash on delivery. Normally, the Group does not obtain collateral from customers.

14. Trade and other payables

	At 30 June 2008 *HK$'000*	At 31 December 2007 *HK$'000*
Trade payables	10,472	13,621
Receipts in advance	4,227	10,467
Other payables and accruals	206,447	164,582
Amount due to a minority shareholder	142	2,807
Current portion of mining right payables *(note 17)*	103,410	64,653
	324,698	256,130

The amount due to a minority shareholder is unsecured, interest-free and has no fixed terms of repayment.

Included in other payables are retention payables of $1,018,000 (31 December 2007: $961,000) in respect of construction works which are expected to be settled after one year.

Included in trade and other payables are trade payables with the following ageing analysis as of the balance sheet date:

	At 30 June 2008 *HK$'000*	At 31 December 2007 *HK$'000*
Due within 3 months or on demand	5,854	10,287
Due after 3 months but within 6 months	41	437
Due after 6 months but within 1 year	1,806	225
Due after 1 year	2,771	2,672
	10,472	13,621

15. Deferred income

(a) Deferred income of $64,255,000 (31 December 2007: $53,814,000) represents fees received in advance for the provision of cord blood storage services. The amount is amortised over the remaining service period.

(b) Non-current deferred income represents government grants received by the Group as of the balance sheet date. Certain government grants are received by the Group in respect of property, plant and equipment and interests in leasehold land held for own use under operating leases. Such government grants are recognised in the balance sheet initially and recognised in the income statement as other revenue on a systematic basis over the useful life of the assets.

16. Bank loans

The bank loans were repayable as follows:

	At 30 June 2008 *HK$'000*	At 31 December 2007 *HK$'000*
Within one year or on demand	124,305	127,467
After 1 year but within 2 years	56,760	53,333
After 2 years but within 5 years	34,056	32,000
	90,816	85,333
	215,121	212,800

All the bank loans as at 30 June 2008 and 31 December 2007 were interest-bearing at floating rates with reference to the prevailing borrowing rate quoted by the People's Bank of China. The interest rates of bank loans ranged 6.03% to 7.74% per annum as at 30 June 2008 (31 December 2007: 6.48% to 7.23% per annum).

The Group's bank loans were secured as follows:

	At 30 June 2008 *HK$'000*	At 31 December 2007 *HK$'000*
Bank loans		
Unsecured	44,841	52,800
Guaranteed by a third party	34,056	32,000
Guaranteed by a minority shareholder *(note 21(b))*	136,224	128,000
	215,121	212,800

17. Other payables

	At 30 June 2008 *HK$'000*	At 31 December 2007 *HK$'000*
Mining right payables	198,502	181,639
Less: Amount included under "current liabilities" *(note 14)*	(103,410)	(64,653)
	95,092	116,986

Pursuant to mining rights premium agreements entered into between the Group and the relevant government authorities of the PRC, the mining rights premium in respect of the mining rights of Shanxi Dai County Rutile mine and Wudaoling Molybdenum mine amounted to approximately $65,510,000 and $161,875,000 respectively. As at 30 June 2008, the remaining balance of the mining rights premium of $40,337,000 and $130,707,000 in respect of Shanxi Dai County Rutile mine and Wudaoling Molybdenum mine shall be settled in four instalments and the final instalments are payable on or before 30 June 2012 and 22 May 2011 respectively.

Mining right payables also included the estimated consideration of $27,458,000 (31 December 2007: $25,799,000) for the transfer of certain mining rights from state-owned or collectively-owned to privately-owned and was classified as current liabilities.

18. Share capital

The amounts of the Group's capital and reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of this interim financial report.

	At 30 June 2008		At 31 December 2007	
	Number of shares *('000)*	**Amount** *HK$'000*	**Number of shares** *('000)*	**Amount** *HK$'000*
Authorised:				
Ordinary shares of $0.1 each	10,000,000	1,000,000	10,000,000	1,000,000
Ordinary shares issued and fully paid:				
At 1 January	6,026,653	602,665	4,720,781	472,078
Shares issued under share placing	—	—	1,305,872	130,587
	6,026,653	602,665	6,026,653	602,665

On 29 June 2007, the Company issued 1,305,872,000 new shares pursuant to a placing agreement entered into with a placing agent on 21 June 2007 to finance the acquisition of 75.08% equity interests in Harbin Songjinag Copper (Group) Company Limited.

Part of the proceeds of $130,587,000, representing the par value of the share issued, were credited to the Company's share capital. The remaining proceeds of $2,324,452,000, before the share issue expenses of $90,596,000, were credited to the share premium account.

19. Reduction of share premium

Pursuant to a special resolution passed at Annual General Meeting of the Company on 23 May 2008 and with the sanction of the Registrar of Companies of Bermuda dated 4 June 2008, share premium of $219,091,000 and contributed surplus of $234,944,000 were eliminated against an equal amount of accumulated losses effective on 23 May 2008.

20. Commitments

(a) Capital Commitments

(i) Capital commitments outstanding at 30 June 2008 not provided for in this interim financial report were as follows:

	At 30 June 2008 *HK$'000*	**At 31 December 2007** *HK$'000*
Contracted for	28,830	32,813
Authorised but not contracted for	1,100,514	1,206,899
	1,129,344	1,239,712

(ii) Other commitments

At 30 June 2008, the Company had commitments to contribute capital of $7,804,000 (31 December 2007: $7,722,000) to a jointly controlled entity.

(b) Operating lease commitments

At 30 June 2008, the total future minimum lease payments under non-cancellable operating leases in respect of rented premises are payable as follows:

	At 30 June 2008 *HK$'000*	At 31 December 2007 *HK$'000*
Within 1 year	4,314	3,851
After 1 year but within 5 years	3,771	4,873
	8,085	8,724

21. Material related party transactions

In addition to the transactions and balances disclosed elsewhere in this interim financial report, the Group entered into the following material related party transactions during the period:

(a) Recurring transactions

	Six months ended 30 June	
	2008 *HK$'000*	**2007** *HK$'000*
Sales of goods to a minority shareholder, Chifeng Jinjian Copper Company Limited ("Chifeng Jinjian")	35,457	—

(b) Guarantees

A guarantee of RMB120,000,000 (equivalent to $136,224,000) (31 December 2007: RMB120,000,000 (equivalent to $128,000,000)) was given by Chifeng Jinjian to a subsidiary of the Group against certain bank loans totalling RMB120,000,000 (equivalent to $136,224,000) as at 30 June 2008 (31 December 2007: RMB120,000,000 (equivalent to $128,000,000)) as disclosed in note 16.

(c) Exploration rights

Exploration in certain locations in Inner Mongolia is conducted by the Group during the period ended 30 June 2008. The exploration rights are provided by Chifeng Jinjian to the Group at no cost. Expenditure of $12,613,000 has been incurred for the exploration in such locations and capitalised as exploration and evaluation assets included in intangible assets and fully impaired during the period.

(d) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors, is as follows:

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
Short-term employee benefits	4,211	1,071
Post-employment benefits	138	47
Equity compensation benefits	14,286	—
	18,635	1,118

22. Litigation

As set out in 2007 annual report, there are disputes between two former shareholders of Top Rank International Group Limited, a subsidiary of the Company which owns 90% equity interest in Shanxi Shenli Aerospace Titanium Company Limited, the company which holds the rutile mine. Based on advice from the Company's PRC legal adviser, there was no change in status of the Company compared with the year ended 31 December 2007. A judgement was made by the Shenzhen City Middle People's Court on 17 December 2007 in favour of the relevant members of the Group. As set out in the 2007 annual report and the announcement of the Company dated 18 March 2008, the Company has on 6 March 2008 received a copy of the Application for Civil Appeal (民事上訴狀) dated 3 March 2008 from the plaintiff which was lodged with the Guangdong Province High Court (the "Application"), pursuant to which the plaintiff has made an application to the Guangdong Province High Court to appeal for the revocation of the judgement orders (a) and (c) made against the plaintiff as referred to in the announcement of the Company dated 4 February 2008 and for support of all claims of the plaintiff. The court hearing was held in June 2008 and as at the date hereof, the Company has not received any judgement issued by the Guangdong Province High Court in relation to the Application. The directors of the Company do not anticipate any significant adverse impact on the financial position or operating results of the Group resulting from the Application up to the date of this report. The directors of the Company are of the view that the Group has proper and valid defenses to the claims, and accordingly, no provision has been accounted for in this financial report in connection with the litigation.

23. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 31 December 2008

Up to the date of issue of this interim financial report, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2008 and which have not been adopted in this interim financial report because the directors expect the Group will not early apply them when preparing the Group's annual financial statements for the year ending 31 December 2008.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 8	Operating segments	1 January 2009
HKAS 1 (revised)	Presentation of financial statements	1 January 2009
HKAS 23 (revised)	Borrowing costs	1 January 2009
HKAS 27 (revised)	Consolidated and separate financial statement	1 July 2009

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far the Group believes that the adoption of the above amendments and new standards is unlikely to have a significant impact on the Group's results of operations and financial position.

4. INDEBTEDNESS

At the close of businesses on 31 January 2009, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Enlarged Group had the following outstanding borrowings:

	Note	The Enlarged Group HK$'000
Secured bank borrowings	*(a)*	11,322
Unsecured bank borrowings	*(b)*	169,837
Loan from minority shareholders	*(c)*	150,500
Other loan, secured	*(d)*	566
Other loans, unsecured	*(e)*	7,122
Total borrowings		339,347

Notes:

(a) The secured bank borrowings from a bank in PRC were bearing interest ranging from 7.92% to 8.217% per annum and secured by certain buildings with an aggregate carrying amounts of approximately RMB10 million, and repayable in the amount of RMB5 million (equivalent to approximately HK$5.5 million) each on 5 May 2009 and 27 September 2009 respectively.

(b) The unsecured bank borrowings comprise:

(i) approximately RMB80 million (equivalent to approximately HK$91 million) from a bank in PRC, which was unsecured, interest bearing at 5.76% per annum and repayable with an amount of RMB50 million (equivalent to approximately HK$57 million) and RMB30 million (equivalent to approximately HK$34 million) on 27 November 2009 and 27 November 2010 respectively.

A guarantee of RMB220 million (equivalent to approximately HK$249 million) was given by two independent third parties against the bank borrowings.

(ii) approximately RMB70 million (equivalent to approximately HK$79 million) was unsecured, unguaranteed, interest bearing at 5.31% per annum and repayable on 25 December 2009.

(c) Loans from minority shareholders of a subsidiary were unsecured, unguaranteed, interest-free and with no fixed term of repayment.

(d) The unsecured other loan was provided by the Wuyishan Finance Bureau which was bearing interest at 2.4% per annum and secured by prepaid premium for land leases with carrying amount of approximately RMB3.7 million and repayable on 9 December 2009.

(e) Other loans, unsecured comprise:

(i) approximately RMB4 million (equivalent to approximately HK$5 million) was provided by the Harbin Finance Bureau which was unsecured, unguaranteed, interest bearing at a fixed rate of 2.55% per annum and repayable by yearly instalment commenced from the fifth-year of the loan agreement.

(ii) approximately RMB1 million (equivalent to approximately HK$1 million) was provided by the Industry Development Fund of the Harbin Finance Bureau to Harbin Songjiang in 1998 which was unsecured, unguaranteed, interest-free and repayable on demand.

(iii) RMB1 million (equivalent to approximately HK$1 million) was provided by an independent third party which was unsecured, unguaranteed, interest bearing at 5.04% per annum and repayable on 15 March 2009.

Foreign currency transactions

Foreign currency amounts have, for the purpose of this indebtedness statement, been translated into Hong Kong dollars at the applicable rate of exchange ruling at the close of business on 31 January 2009.

Commitments

Capital commitments outstanding at 31 January 2009 not provided for in the financial statements were as follows:

	The Enlarged Group
	HK$'000
Contracted for	15,950
Authorised but not contracted for	133
	16,083

As at 31 January 2009, the Enlarged Group had operating lease commitments of approximately HK$21,520,000 in respect of rental premises, which were not provided for in the Group and the Enlarged Group's pro forma financial information.

Disclaimer

In addition, the Group was engaged in a litigation as disclosed in Appendix IV to this circular at the close of businesses on 31 January 2009.

To the best understanding and knowledge of the Directors, the Directors confirm that there have been no material changes to the indebtedness position of the Enlarged Group since 31 January 2009 up to the Latest Practicable Date.

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have any mortgages, charges, debentures, loan capital, debt securities (issued and outstanding, or authorised or otherwise created but unissued), loans, bank overdrafts, or other borrowings or similar indebtedness, hire purchase commitments or finance lease, liabilities under acceptances or acceptance credits, or any guarantees or other material contingent liabilities outstanding at the close of business on 31 January 2009.

5. MATERIAL ADVERSE CHANGE

On 23 January 2009, the Board announced that the consolidated annual results of the Company for the year ended 31 December 2008 would be expected to be adversely affected by (i) the significant decrease in the price of commodities relevant to the business of the Group; and (ii) the impairment provisions to be made on intangible assets, namely the mining rights, of the Group. Besides, as disclosed in the Company's announcements dated 17 September 2008 and 6 January 2009, several mining operations/constructions have been suspended by the Group due to various factors during the year. Save as disclosed above, the Directors confirmed that there was no material adverse change in the financial or trading position of the Group since 31 December 2007, being the date to which the latest audited financial statements of the Group were made up.

6. WORKING CAPITAL

The Directors are of the opinion that the Enlarged Group will, following Completion and taking into account the existing cash and bank balances, have sufficient working capital for its requirements in next 12 months from the date of this circular in the absence of unforeseeable circumstances.

1. ACCOUNTANTS' REPORT ON THE KING GOLD GROUP

The following is the text of a report, prepared for the sole purpose of incorporation in this circular, received from the independent reporting accountants, CCIF CPA Limited, Certified Public Accountants, Hong Kong.

CCIF

CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay, Hong Kong

27 March 2009

The Directors
China Mining Resources Group Limited
Room 1306, 13/F
Bank of America Tower
12 Harcourt Road
Admiralty, Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of King Gold Investments Limited ("King Gold") and its subsidiaries, Desire Star Hong Kong Limited ("Desire Star (HK)"), Desire Star (China) Tea Industrial Co., Ltd ("Desire Star (China)") and China Dahongpao Tea Industrial Company Limited ("China Dahongpao Tea") (hereinafter collectively referred to as the "King Gold Group") for the years ended 31 December 2006, 2007 and 2008 (together the "Relevant Periods"), including the balance sheets as at 31 December 2006, 2007 and 2008, the income statements, statements of changes in equity and cash flow statements for the Relevant Periods, and notes thereto, for inclusion in the circular of China Mining Resources Group Limited (the "Company") dated 27 March 2009 (the "Circular") in connection with the proposed acquisition of 80% equity interest in King Gold.

King Gold was incorporated in the British Virgin Islands with limited liability on 18 November 2008 and does not hold any assets and has not undertaken any operations since its date of incorporation. Pursuant to a group reorganisation, as more fully explained in the paragraph headed "Reorganisation" in Letter From the Board to the Circular (the "Reorganisation"), King Gold will become the holding company of the subsidiaries comprising the King Gold Group.

Upon completion of the Reorganisation, King Gold will have three 100% owned subsidiaries, Desire Star (HK), Desire Star (China) and Hong Kong Dahongpao Tea. Hong Kong Dahongpao Tea has not yet been incorporated up to the date of this report.

Desire Star (HK) was incorporated in Hong Kong with limited liability on 2 January 2009 and did not hold any assets and had not undertaken any operations since its date of incorporation.

Desire Star (China) was established in the People's Republic of China (the "PRC") as a wholly-owned foreign enterprise with limited liability on 11 October 2001 and was principally engaged in the cultivation, research, production and sale of Chinese tea products during the Relevant Periods.

China Dahongpao Tea was incorporated in Hong Kong with limited liability on 3 July 2007 and did not hold any assets and had not undertaken any operations since its date of incorporation.

No audited financial statements have been prepared for King Gold since the date of its incorporation as it was newly incorporated and has not been involved in any significant business transactions other than the Reorganisation.

The financial statements of Desire Star (China) for the years ended 31 December 2006, 2007 and 2008 prepared in accordance with the PRC accounting principles were audited by 福建天和會計師事務所有限公司, which are registered auditors in the PRC.

The financial statements of China Dahongpao Tea for the period from its incorporation date to 31 December 2008 prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") were audited by CCIF CPA Limited.

For the purpose of this report, the director of King Gold has prepared the combined financial statements of the King Gold Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with HKFRSs issued by the HKICPA.

The Financial Information has been prepared based on the Underlying Financial Statements, after making such adjustments as we considered appropriate.

The director of King Gold is responsible for the preparation of the Financial Information which gives a true and fair view, and for the contents of the Circular in which this report is included. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting polices are selected and applied consistently, that judgements and estimates made are prudent and reasonable, and that the reasons for any significant departure from applicable accounting standards are stated. It is our responsibility to form an independent opinion, based on our audit, on the Financial Information for the Relevant Periods, and to report our opinion to you.

We have examined the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA, and carrying out such additional procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the reporting accountant" (Statement 3.340) issued by the HKICPA.

In our opinion, the Financial Information for the purpose of this report and prepared on the basis set out in note 2 of Section II below, gives a true and fair view of the state of affairs of the King Gold Group as at 31 December 2006, 2007 and 2008 and of the King Gold Group's results and cash flows for the Relevant Periods.

Yours faithfully

CCIF CPA Limited
Certified Public Accountants
Hong Kong

Sze Chor Chun, Yvonne
Practising Certificate Number P05049

I. Financial information

(a) Combined income statements

	Section II Note	Year ended 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000
Turnover	3	12,450	18,410	58,686
Cost of sales		(6,720)	(7,177)	(24,381)
Gross profit		5,730	11,233	34,305
Other revenue	4	550	7,001	752
Distribution costs		(2,888)	(4,128)	(5,522)
Administrative expenses		(3,656)	(2,737)	(3,762)
Other operating expenses		(13)	(1,314)	(750)
Profit/(loss) from operations		(277)	10,055	25,023
Finance costs	5(a)	(456)	(694)	(889)
Profit/(loss) before taxation	5	(733)	9,361	24,134
Income tax	6	—	—	—
Profit/(loss) for the year		(733)	9,361	24,134
Attributable to:				
Equity shareholders of the parent		(733)	9,361	24,134
Minority interest		—	—	—
Profit/(loss) for the year		(733)	9,361	24,134
Dividends	9	—	—	—

(b) Combined balance sheets

	Section II Note	As at 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000
Non-current assets				
Property, plant and equipment	*11*	6,915	14,612	21,418
Construction in progress	*12*	7,364	886	18,911
Prepaid premium for land leases	*13*	7,821	7,379	7,156
Intangible assets	*14*	80	60	40
		22,180	22,937	47,525
Current assets				
Inventories	*16*	10,463	13,117	27,341
Trade and other receivables	*17*	27,811	57,627	79,332
Prepaid premium for land leases	*13*	441	441	332
Cash and bank balances		769	3,361	2,015
		39,484	74,546	109,020
Current liabilities				
Borrowings	*18*	10,000	10,000	11,500
Trade and other payables	*19*	3,617	12,918	37,965
		(13,617)	(22,918)	(49,465)
Net current assets		25,867	51,628	59,555
Total assets less current liabilities		48,047	74,565	107,080
Non-current liabilities				
Borrowings	*18*	(1,000)	(1,000)	—
Net assets		47,047	73,565	107,080
Capital and reserves				
Capital	*20(a)*	51,141	68,306	77,720
Reserves		(4,094)	5,259	29,360
Total equity		47,047	73,565	107,080

(c) Combined statements of changes in equity

	Attributable to equity shareholders of the parent				
	Capital	**Exchange reserve**	**Statutory reserve**	**Retained earnings/ (accumulated losses)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	49,283	—	—	(3,361)	45,922
Capital injection	1,858	—	—	—	1,858
Loss for the year	—	—	—	(733)	(733)
At 31 December 2006 and 1 January 2007	51,141	—	—	(4,094)	47,047
Capital injection	17,165	—	—	—	17,165
Exchange differences on translation of financial statements of a subsidiary	—	(8)	—	—	(8)
Appropriation	—	—	803	(803)	—
Profit for the year	—	—	—	9,361	9,361
At 31 December 2007 and 1 January 2008	68,306	(8)	803	4,464	73,565
Capital injection	9,414	—	—	—	9,414
Exchange differences on translation of financial statements of a subsidiary	—	(33)	—	—	(33)
Appropriation	—	—	2,479	(2,479)	—
Profit for the year	—	—	—	24,134	24,134
At 31 December 2008	77,720	(41)	3,282	26,119	107,080

(d) Combined cash flow statements

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Operating activities			
Profit/(loss) before taxation	(733)	9,361	24,134
Adjustments for:			
Amortisation	461	462	352
Bad debts	49	—	—
Depreciation	630	1,040	1,346
Loss on disposal of property, plant and equipment	1	9	—
Interest income	(13)	(8)	(21)
Interest expense	442	662	839
Operating profit before changes in working capital	837	11,526	26,650
Increase in inventories	(1,562)	(2,654)	(14,224)
Increase in trade and other receivables	(8,882)	(29,816)	(21,705)
Increase in trade and other payables	1,153	9,301	25,047
Cash generated from/(used in) operations	(8,454)	(11,643)	15,768
Income tax paid	—	—	—
Net cash generated from/(used in) operating activities	(8,454)	(11,643)	15,768
Investing activities			
Payment for the purchase of property, plant and equipment	(1,358)	(1,562)	(6,687)
Payment for construction in progress	(728)	(706)	(19,490)
Interest received	13	8	21
Proceed from disposal of property, plant and equipment	455	—	—
Net cash used in investing activities	(1,618)	(2,260)	(26,156)

	Year ended 31 December		
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
Financing activities			
Interest paid	(442)	(662)	(839)
Proceeds from new other loans	—	—	1,000
Repayment of other loans	—	—	(500)
Proceeds from new bank loans	10,000	10,000	10,000
Repayment of bank loans	(5,000)	(10,000)	(10,000)
Capital injection	1,858	17,165	9,414
Net cash from financing activities	6,416	16,503	9,075
(Decrease)/increase in cash and cash equivalents	(3,656)	2,600	(1,313)
Cash and cash equivalents at 1 January	4,425	769	3,361
Effect of foreign exchange rates changes	—	(8)	(33)
Cash and cash equivalents at 31 December	769	3,361	2,015
Analysis of cash and cash equivalents			
Cash and bank balances	769	3,361	2,015

II. Notes to the financial information

1. General Information

King Gold was incorporated in the British Virgin Islands on 18 November 2008. Its registered office is situated at the office of the registered agent which is at ATC Trustees (BVI) Limited of 2/F., Abbott Building, Road Town, Tortola, British Virgin Islands. King Gold does not hold any assets and has not undertaken any operations since its date of incorporation.

Desire Star (HK) was incorporated in Hong Kong with limited liability on 2 January 2009 and did not hold any assets and had not undertaken any operations since its date of incorporation.

Desire Star (China) was established in PRC as a wholly-owned foreign enterprise with limited liability on 11 October 2001 and was principally engaged in the cultivation, research, production and sale of Chinese tea products in PRC.

China Dahongpao Tea was incorporated in Hong Kong with limited liability on 3 July 2007 and did not hold any assets and had not undertaken any operations since its date of incorporation.

The combined financial statements are presented in thousand of Renminbi (RMB'000), unless otherwise stated.

2. Significant accounting policies

(a) Statement of compliance

The Financial Information has been prepared in accordance with HKFRSs. HKFRSs include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations ("HKAS-Int"). In addition, the Financial Information includes applicable disclosures required by the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the King Gold Group is set out below.

At the date of this report, the HKICPA has issued a number of new and revised HKFRSs that are not yet effective for the Relevant Periods. The King Gold Group has not early adopted these new and revised HKFRSs (see note 26).

(b) Basis of preparation of the Financial Information

The Financial Information has been prepared on the historical cost basis.

The Reorganisation involved companies under common control and King Gold and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Financial Information has been prepared using the merger method of accounting as if King Gold had been the holding company of the King Gold Group from the beginning of the earliest period presented. The Financial Information presents the combined results, cash flows and financial position of the King Gold Group as if King Gold had been in existence throughout the Relevant Periods and the current structure had been in place as of the earliest period presented, or since the effective dates of incorporation of the companies where they were not existed at those dates.

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

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

Judgements made by management in the application of HKFRSs that have a significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are disclosed in note 25.

(c) Basis of combination

The Financial Information incorporates the financial statements of King Gold and its subsidiaries for the Relevant Periods. As explained above, the acquisition of subsidiaries under common control has been accounted for using the merger method of accounting. The acquisition of all other subsidiaries during the Relevant Periods is accounted for using the purchase method of accounting.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination.

The combined income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The purchase method of accounting involves allocating the cost of a business combination to the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of acquisition is measured at the aggregate fair value of the assets given and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

All significant intra-group transactions and balances have been eliminated on combination.

Minority interests represent the interests of outside shareholders not held by the King Gold Group in the results and net assets of the companies now comprising the King Gold Group. When the King Gold Group acquires minority interests of its subsidiaries, the difference between the amounts of consideration and carrying values of minority interests are recognised as a reserve movement.

(d) Subsidiaries

A subsidiary is an entity whose financial and operating policies King Gold controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are included in King Gold's income statement to the extent of dividends received and receivable. King Gold's interests in subsidiaries are stated at cost less any impairment losses.

(e) Property, plant and equipment

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

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

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

Buildings	20 years or over the remaining term of the lease, if shorter
Equipment and machinery	10 years
Furniture and fixtures	5 years
Motor vehicles	5 years

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

(f) Intangible assets

Intangible assets with finite useful lives acquired by the King Gold Group are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 2(h)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over its estimated useful life of 25 years. Both the period and method of amortisation are reviewed annually.

(g) Leases

(i) Prepaid premium for land leases

Prepaid premium for land leases include long-term prepaid rentals under operating leases and land use rights. They are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on the straight-line method over the period of the respective leases.

Cost of land use rights represents the up-front payments to acquire the rights to use the land on which various warehouses, office premises and processing factories of the King Gold are situated.

(ii) Operating leases

Where the King Gold has the use of assets under operating leases, payments made under the leases are charged to the income statement on the straight-line method over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the financial period in which they are incurred.

(h) Impairment of assets

(i) Impairment of receivables

Receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the King Gold Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

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

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

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

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

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

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

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment (other than properties carried at revalued amounts);

— prepaid premium for land leases;

— intangible assets; and

— investment in a subsidiary.

If any such indication exists, the asset's recoverable amount is estimated. In addition, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

(i) Inventories

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

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

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

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

(j) Trade and other receivables

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

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the King Gold Group's cash management are also included as a component of cash and cash equivalents for the purpose of the combined cash flow statement.

(l) Interest-bearing borrowings

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

(m) Trade and other payables

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

(n) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

(ii) Termination benefits

Termination benefits are recognised when, and only when, the King Gold Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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

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

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

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

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

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

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

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

  — the same taxable entity; or

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

(p) Provisions and contingent liabilities

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

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

(q) Revenue recognition

Provided it is probable that the economic benefits will flow to the King Gold Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

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

(ii) Interest income

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

(iii) Government grant

Government grants are recognised in the combined balance sheet initially when there is reasonable assurance that they will be received and that the King Gold Group will comply with the conditions attaching to them. Grants that compensate the King Gold Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the King Gold Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the asset.

(r) Translation of foreign currencies

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

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

(s) Borrowing costs

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

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

(t) Related parties

For the purpose of the Financial Information, parties are considered to be related to the King Gold Group if:

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

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

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

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

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

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

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

3. Turnover and segment information

The principal activities of the King Gold Group are cultivation, research, production and sale of Chinese tea products.

(a) Turnover

Turnover represents the sales value of goods supplied to customers. The amount of revenue recognised in turnover during the Relevant Periods is as follows:

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Sales of Chinese tea products	12,450	18,410	58,686

(b) Segment information

For the Relevant Periods, the King Gold Group was principally engaged in the cultivation, research, production and sale of Chinese tea products. The results, assets and liabilities of the King Gold Group during the Relevant Periods were mainly related to the cultivation, research, production and sale of Chinese tea products and, the assets and liabilities were mainly located in the PRC.

The directors consider that the King Gold Group's activities constitute one business segment since these activities are related and subject to common risk and returns. Accordingly, neither business nor geographical segment information is presented in accordance with HKAS 14 "Segment Reporting".

4. Other revenue

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Interest income on bank deposits	13	8	21
Government grant	450	6,873	669
Sundry income	87	120	62
	550	7,001	752

5. Profit/ (loss) before taxation

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
(a) Finance costs			
Bank charges	8	11	23
Exchange loss	6	21	27
Interest expense on			
— Bank borrowings wholly repayable within five years	442	662	837
— Other loan wholly repayable within five years	—	—	2
	456	694	889
(b) Staff costs (including director's remuneration)			
Wages and salaries	2,081	2,227	3,301
Staff welfare and other benefits	383	175	535
	2,464	2,402	3,836
(c) Other items			
Auditor's remuneration			
— Audit service	4	4	4
Bad debts	49	—	—
Depreciation of property, plant and equipment	630	1,040	1,346
Amortisation			
— prepaid premium for land leases	441	442	332
— intangible assets	20	20	20
Cost of inventories consumed in operation	4,609	4,791	20,957
Loss on disposal of property, plant and equipment	1	9	—
Operating lease charges: minimum lease payment	140	318	603

6. Income tax

(a) No provision for Hong Kong Profits Tax has been made in the Financial Information as the income of the King Gold Group neither arise in, nor is derived from, Hong Kong during the Relevant Periods.

Profits tax arising in the PRC is calculated based on the applicable tax rates on assessable profits. The King Gold Group operating in the PRC is exempted from income tax for two years starting from 2007 to 2008, followed by a 50% reduction from 2009 to 2011.

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China.

On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations has changed the enterprise income tax rate from 24% to 30% for the King Gold Group from 10 January 2008. The new tax rate is changed to 25% over five years as grandfatherly provision. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), the tax exemption and deduction for the foreign investment enterprises is still applicable until the end of the five-year transitional period under the New Law.

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

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Profit/(loss) before taxation	(733)	9,361	24,134
Calculated at the PRC enterprise income rate of 24%/30%/25%	(176)	2,808	6,034
Expenses not deductible for tax	97	—	—
Tax effect of profits entitled to tax exemption in the PRC	—	(2,646)	(6,034)
Tax effect of utilisation of used tax losses not recognised in prior years	(50)	(162)	—
Tax effect of unused tax leases not recognised	129	—	—
Income tax expense	—	—	—

7. Directors' remuneration

No directors' remuneration has been paid or is payable during the Relevant Periods.

No emoluments or discretionary bonus were paid by the King Gold Group to the directors as an inducement to join or upon joining the King Gold Group or as compensation for loss of office during the Relevant Periods. No director of the King Gold Group waived or agreed to waive any emoluments or discretionary bonus during the Relevant Periods.

8. Individuals with highest emoluments

Of the five individuals with the highest emoluments in the King Gold Group, none of them were directors of the King Gold Group during the Relevant Periods. The emolument of the five individuals were as follows:

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other benefits	432	432	468
Contributions to retirement benefits schemes	—	—	—
Share based payment expense	—	—	—
	432	432	468

Their emoluments were all within HK$1,000,000 (equivalents to RMB940,000).

9. Dividends

No dividend has been declared or paid during the Relevant Periods.

10. Earnings/(loss) per share

Earnings/(loss) per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results of the King Gold Group for the Relevant Periods on the combined basis.

11. Property, plant and equipment

	Buildings	Equipment and machinery	Furniture and fixtures	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
At 1 January 2006	1,670	2,966	561	769	5,966
Additions	357	104	27	870	1,358
Transferred from CIP *(note 12)*	1,864	—	—	—	1,864
Disposals	—	—	(10)	(537)	(547)
At 31 December 2006 and 1 January 2007	3,891	3,070	578	1,102	8,641
Additions	27	836	371	328	1,562
Transferred from CIP *(note 12)*	6,919	265	—	—	7,184
Disposals	—	—	—	(85)	(85)
At 31 December 2007 and 1 January 2008	10,837	4,171	949	1,345	17,302
Additions	1,363	571	3,316	1,437	6,687
Transferred from CIP *(note 12)*	1,465	—	—	—	1,465
At 31 December 2008	13,665	4,742	4,265	2,782	25,454
Accumulated depreciation					
At 1 January 2006	200	544	255	188	1,187
Charge for the year	90	274	103	163	630
Written back on disposals	—	—	(9)	(82)	(91)
At 31 December 2006 and 1 January 2007	290	818	349	269	1,726
Charge for the year	440	299	93	208	1,040
Written back on disposals	—	—	—	(76)	(76)
At 31 December 2007 and 1 January 2008	730	1,117	442	401	2,690
Charge for the year	499	379	184	284	1,346
At 31 December 2008	1,229	1,496	626	685	4,036
Net book value					
At 31 December 2006	3,601	2,252	229	833	6,915
At 31 December 2007	10,107	3,054	507	944	14,612
At 31 December 2008	12,436	3,246	3,639	2,097	21,418

As at 31 December 2006, 2007 and 2008, certain buildings with an aggregate carrying amounts of approximately RMB2,589,000, RMB9,122,000 and RMB10,045,000 respectively are pledged to a bank for bank loans (note 18(a)) granted to the King Gold Group (note 24).

12. Construction in progress

	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	8,500	7,364	886
Additions	728	706	19,490
Transferred to property, plant and equipment *(note 11)*	(1,864)	(7,184)	(1,465)
At 31 December	7,364	886	18,911

13. Prepaid premium for land leases

	Long-term prepaid rentals	Land use rights	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost			
At 1 January 2006, 31 December 2006, 31 December 2007 and 31 December 2008	7,973	2,120	10,093
Accumulated amortisation			
At 1 January 2006	1,291	99	1,390
Amortisation for the year	399	42	441
At 31 December 2006 and 1 January 2007	1,690	141	1,831
Amortisation for the year	399	43	442
At 31 December 2007 and 1 January 2008	2,089	184	2,273
Amortisation for the year	290	42	332
At 31 December 2008	2,379	226	2,605
Net carrying value			
At 31 December 2006	6,283	1,979	8,262
At 31 December 2007	5,884	1,936	7,820
At 31 December 2008	5,594	1,894	7,488

		As at 31 December	
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
Analysed as:			
Current portion	441	441	332
Non-current portion	7,821	7,379	7,156
	8,262	7,820	7,488

The King Gold Group's interest in long-term prepaid rentals and land use rights represent the prepaid operating leases payments and their net carrying values are analysed as follows:

	As at 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
In the PRC held on:			
Leases of between 10 to 50 years	8,262	7,820	7,488

As at 31 December 2006, 2007 and 2008, certain prepaid premium for land leases with carrying amounts of approximately RMB4,114,000, RMB3,857,000 and RMB3,709,000 respectively are pledged to the Wuyishan Finance Bureau for an other loan (note 18(c)) granted to the King Gold Group (note 24).

14. Intangible assets

	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Cost			
At 1 January	100	100	100
Additions	—	—	—
At 31 December	100	100	100
Accumulated amortisation			
At 1 January	—	20	40
Charge for the year	20	20	20
At 31 December	20	40	60
Net book value			
At 31 December	80	60	40

Intangible assets represent patents and trademarks held by the King Gold Group.

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

15. Deferred taxation

At 31 December 2006, 2007 and 2008, the King Gold Group has unused tax losses of approximately RMB539,000, RMB Nil and RMB Nil respectively, that can be carried forward for five years from the year in which the losses arose for offsetting against future taxable profits of the tax entity in which the losses arose.

16. Inventories

	As at 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	1,745	2,057	3,120
Work-in-progress	6,724	7,394	12,973
Finished goods	408	520	1,197
Consignment stock	1,586	3,146	10,051
	10,463	13,117	27,341

17. Trade and other receivables

	As at 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	507	1,665	9,917
Other receivables	880	2,402	2,715
Prepayments and deposits	791	4,040	7,191
Amount due from a director	25,633	49,520	59,509
	27,811	57,627	79,332

All of the trade receivables are expected to be recovered within one year.

(a) Aging analysis

The ageing analysis of trade receivables as at the balance sheet dates is as follows:

	As at 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Current	122	442	2,086
Due after 1 month but within 3 months	154	239	7,254
Due after 3 months but within 6 months	123	221	185
Due after 6 months but less than 1 year	63	523	75
Due after 1 year	45	240	317
	507	1,665	9,917

Trade receivables are due within 180 days from the date of billing. Further details on the King Gold Group's credit policy are set out in note 21(a).

(b) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	As at 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	399	902	9,525
Past due but not impaired	108	763	392
	507	1,665	9,917

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the King Gold Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The King Gold Group does not hold any collateral over these balances.

18. Borrowings

	As at 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Current			
Bank loans, secured *(Note (a))*	10,000	10,000	10,000
Other loan, unsecured *(Note (b))*	—	—	1,000
Other loan, secured *(Note (c))*	—	—	500
	10,000	10,000	11,500
Non-current			
Other loan, secured *(Note (c))*	1,000	1,000	—
Total borrowings	11,000	11,000	11,500

The borrowings were repayable as follows:

	As at 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year or on demand	10,000	10,000	11,500
After 1 year but within 2 years	—	1,000	—
After 2 years but within 5 years	1,000	—	—
After 5 years	—	—	—
	11,000	11,000	11,500

All of the non-current interest bearing borrowings are carried at amortised cost. None of the non-current interest-bearing borrowings is expected to be settled within one year.

Note:

(a) Bank loans, secured

At 31 December 2006, 2007 and 2008, the bank loans of RMB10,000,000, RMB10,000,000 and RMB10,000,000 were bearing interest ranging from 3% to 8.748% per annum and secured by certain buildings with an aggregate carrying amounts of approximately RMB2,589,000, RMB9,122,000 and RMB10,045,000 respectively (see notes 11 and 24), and repayable of RMB5,000,000 each on 5 May 2009 and 27 September 2009 respectively.

(b) Other loan, unsecured

At 31 December 2008, the other loan of RMB1,000,000 was unsecured, bearing interest at 5.04% per annum and repayable on 15 March 2009.

(c) Other loan, secured

At 31 December 2006, 2007 and 2008, the other loan of approximately RMB1,000,000, RMB1,000,000 and RMB500,000, provided by the Wuyishan Finance Bureau, was bearing interest at 2.4% per annum and secured by prepaid premium for land leases with carrying amounts of approximately RMB4,114,000, RMB3,857,000 and RMB3,709,000 respectively (notes 13 and 24) and repayable on 9 December 2009.

19. Trade and other payables

	As at 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	940	1,936	3,441
Receipts in advance	1,395	2,361	479
Other payables	1,006	7,438	31,257
Value added tax payables	276	1,183	2,788
	3,617	12,918	37,965

The ageing analysis of trade payables as at the balance sheet dates is as follows:

	As at 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Current	234	993	805
Due after 1 month but within 3 months	200	339	220
Due after 3 months but within 6 months	150	155	1,131
Due after 6 months but less than 1 year	34	85	263
Due after 1 year	322	364	1,022
	940	1,936	3,441

20. Capital and reserves

(a) Share capital

For the purpose of this report, the capital in the combined balance sheets as at 31 December 2006, 2007 and 2008 represents the combined capital of all the subsidiaries of the King Gold Group as at the respective balance sheet dates.

(b) Exchange reserve

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

(c) Statutory reserve

In accordance with the relevant PRC rules and regulations, certain subsidiaries of the King Gold Group are required to appropriate not less than 10% of their profits after tax to the respective statutory reserves, until the respective balances of the fund reach 50% of the respective registered capitals. Subject to certain restrictions as set out in the relevant PRC regulations, these statutory reserves may be used to offset against their respective accumulated losses, if any.

(d) Distributability of reserves

At 31 December 2006, 2007 and 2008, no reserve was available for distribution to shareholders of King Gold.

(e) Capital management

The King Gold Group manages its capital to ensure that entities in the King Gold Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The King Gold Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the King Gold Group consists of net debt, including borrowings disclosed in note 18, net of cash and cash equivalents, and equity attributable to equity holders of the King Gold Group, comprising issued share capital, reserves and retained profits.

The director of the King Gold Group reviews the capital structure periodically. As part of this review, the director of the King Gold Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the King Gold Group, the King Gold Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the repayment of existing debt, if necessary.

21. Financial risk management

Financial risk factors

The King Gold Group's major financial instruments include trade receivables, trade payables and borrowings. Details of the financial instruments are disclosed in respective notes. The management monitors and manages the financial risks relating to the operations of the King Gold Group through internal risk assessment which analyses exposures by degree and magnitude of risks. The risks include market risk (including currency risk and interest rate 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.

(a) Credit risk

The King Gold Group trades only with recognised and creditworthy third parties. It is the King Gold Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the King Gold Group's exposure to bad debts is not significant.

The credit risk of the King Gold Group's other financial assets, which comprise cash and cash equivalents, amount due from a director and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the King Gold Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty. There are no significant concentrations of credit risk within the King Gold Group as the customer bases of the King Gold Group's trade receivables are widely dispersed.

Further quantitative data in respect of the Target Group's exposure to credit risk arising from trade and other receivables are disclosed in note 17 to the Financial Information.

(b) Liquidity risk

In the management of the liquidity risk, the King Gold Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the King Gold Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of borrowings and ensure compliance with loan covenants.

The following tables detail the King Gold Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the King Gold Group can be required to pay. The table includes both interest and principal cash flows.

	As at 31 December 2008					
	Within 1 year or on demand	**More than 1 years but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**	**Total contractual undiscounted cash flow**	**Carrying amount**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	10,000	—	—	—	10,000	10,000
Other loans	1,500	—	—	—	1,500	1,500
Trade and other payables	37,965	—	—	—	37,965	37,965
	49,465	—	—	—	49,465	49,465

	As at 31 December 2007					
	Within 1 year or on demand	More than 1 years but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	10,000	—	—	—	10,000	10,000
Other loans	24	1,023	—	—	1,047	1,000
Trade and other payables	12,918	—	—	—	12,918	12,918
	22,942	1,023	—	—	23,965	23,918

	As at 31 December 2006					
	Within 1 year or on demand	More than 1 years but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	10,000	—	—	—	10,000	10,000
Other loans	24	24	1,023	—	1,071	1,000
Trade and other payables	3,617	—	—	—	3,617	3,617
	13,641	24	1,023	—	14,688	14,617

(c) Interest rate risk

The King Gold Group are exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances and borrowings (see note 18 for details of these borrowings).

The King Gold Group is also exposed to fair value interest rate risk in relation to fixed-rate borrowings (see note 18). The management will take appropriate measures to manage interest rate exposure if interest rate fluctuates significantly.

The King Gold Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The King Gold Group's cash flow interest rate risk are mainly concentrated on the fluctuation of interest rate arising from the King Gold Group's borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate borrowings. The analysis is prepared assuming the amount of liabilities outstanding at each balance sheet date was outstanding for the whole year/period. A 50 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the King Gold Group's profit/(loss) for the three years ended 31 December 2006, 2007 and 2008 would decrease/increase by RMB27,000, RMB32,000 and RMB43,000 respectively.

(d) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The King Gold Group has no specific policy to deal with foreign currency risk. However, management monitors the exposure and will consider hedging the foreign currency risk exposure for significant cash flow risks should the need arise. As at the balance sheet dates, the King Gold Group's exposure to foreign currency risk is minimal as all transactions are denominated in the operating units' functional currency.

(e) Fair values

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

(f) Estimation of fair value

The following summarises the major methods and assumptions used in estimating the fair values of the following financial instruments.

(i) Cash and cash equivalents, trade and other receivables, trade and other payables

The carrying values approximate their fair values because of the short maturities of these items.

(ii) Short-term bank loan

The carrying amount of loan approximates its fair value based on the borrowing rate currently available for bank loans with similar terms and maturities.

22. Related party transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the King Gold Group is set out in note 8 of this section.

(b) Transactions with related companies

In addition to the transactions and balances disclosed elsewhere in the Financial Information, the King Gold Group does not have any significant related party transactions during the Relevant Periods.

23. Commitments

(a) Capital commitments outstanding at each of the balance sheet date not provided for in the Financial Information were as follows:

	As at 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Contracted for, in respect of acquisition of property	—	—	1,519
Authorised but not contracted for, in respect of construction of buildings	1,981	762	—

(b) The King Gold Group had future aggregate minimum lease rental payable under non-cancellable operating leases in respect of land and buildings as follows:

	As at 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	649	1,527	2,978
After 1 year but within 5 years	2,142	10,365	10,296
After 5 years	8,330	8,008	7,310
	11,121	19,900	20,584

24. Pledge of assets

As at 31 December 2006, 2007 and 2008, the borrowings of the King Gold Group were secured by the following:

	As at 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Buildings *(note 11)*	2,589	9,122	10,045
Prepaid premium for land lease *(note 13)*	4,114	3,857	3,709
	6,703	12,979	13,754

25. Accounting estimates and judgements

In the process of applying the King Gold Group's accounting policies which are described in note 2, management has made the following judgments and the key assumptions concerning the future, and other key sources of estimation uncertainty at each of the balance sheet date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

(a) Useful lives of the property, plant and equipment

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

(b) Impairment of property, plant and equipment and prepaid premium for land leases

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The King Gold Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(c) Impairment of receivables

The King Gold Group maintains impairment allowance for doubtful accounts based upon evaluation of the recoverability of the accounts receivable and other receivables, where applicable, at each balance sheet date. The estimates are based on the ageing of the accounts receivable and other receivables balances and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment allowance may be required.

26. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2008

Up to the date of issue of the Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Period and which have not been adopted in the Financial Information.

The King Gold Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application, but is not yet in a position to state whether these amendments, new standards and interpretations would have a significant impact on its results of operations and financial position.

		Effective for accounting periods beginning on or after
HKAS 1 (Revised)	Presentation of Financial Statements	1 January 2009
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	1 July 2009
HKFRS 2	Vesting conditions and cancellations	1 January 2009
HKFRS 3 (Revised)	Business Combinations	1 July 2009
HKFRS 8	Operating Segments	1 January 2009

27. King Gold's balance sheet

King Gold was incorporated on 18 November 2008 and was not involved in any significant transactions apart from the Reorganisation. The balance sheet of King Gold as at 31 December 2008 was therefore not presented.

III. Post balance sheet event

Other than the Reorganisation, no significant events have taken place subsequent to 31 December 2008.

IV. Subsequent financial statements

No audited financial statements have been prepared by the King Gold Group, King Gold or any of the companies comprising the King Gold Group in respect of any period subsequent to 31 December 2008.

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE KING GOLD GROUP

1. For the year ended 31 December 2006

(a) Business review

Desire Star (China) was incorporated in the PRC with limited liability in October 2001. It is one of the key national agricultural industrialised producers and is principally engaged in the cultivation, production, sale, and research of oolong tea, green tea, jasmine tea, black tea and in particular, WuYi rockessence tea. The two brand names "Wuyi Star" ("武夷星") and "Wu Yi" ("武夷") owned by Desire Star (China) have obtained the accolade of "Famous brand of Fujian" and the products which they are used in relation to have been accredited as the most popular tea product countrywide by the Three Green Project Office of the State Department. In October 2006, Desire Star (China) was licensed to use the words "Special Supplier" of tea to Diao Yu Tai State Guest Hotel on its Da Hong Pao tea products and the tea products were the only products of Fujian to be named as one of the China's famous brand farm products.

(b) Financial result, financial position and capital structure

The net asset value was approximately RMB47.05 million. The turnover for the year ended 31 December 2006 was approximately RMB12.5 million which was generated from the sale of Chinese tea products to customers. The company recorded a net loss of approximately RMB0.73 million which was resulted mainly from the increase in the administrative expenses for the expansion of operations and marketing campaigns. The cash and bank balance at 31 December 2006 was approximately RMB0.77 million. Current liabilities amounted to approximately RMB13.62 million which comprised secured bank loans of RMB10.0 million, bearing interest ranging from 3% to 7.605% per annum and repayable within 1 year, and trade and other payables. Non current liability amounted to RMB1.0 million which was a loan provided by the Wuyishan Finance Bureau at an interest rate of 2.4% per annum and secured by the prepaid premium for land leases with carrying amount of approximately RMB4.11 million.

The company funded its operation by its internal resources and loans. There was no change in capital structure during the year. No financial instrument was used for hedging purposes during the year.

There were no material acquisitions and disposals of subsidiaries and associated companies during the year.

As at 31 December 2006, the Company had approximately RMB1.98 million capital commitment for the construction of the production facility and staff quarter. Save as disclosed above, there were no contingent liabilities and capital commitment.

(c) Employment and remuneration policy

At 31 December 2006, the number of employees was 202. Total staff cost for the year was approximately RMB2.46 million. The remuneration policy was reviewed in line with the market conditions, current legislation and the performance of the individual employee.

(d) Future Plan and Prospects

In order to foster the sale and promotion of the high quality Da Hong Pao tea to other provinces of the PRC and overseas countries, the management planned to expand the production capacity of tea products by entering into sub-contracting arrangements with local farmers of the tea planting area. Under these arrangements, the company would rent the tea-farms from the farmers and have the right to operate the rented tea farms and sell all the produces from the tea farms.

(e) Details of charges on assets

Certain buildings with an aggregate carrying amounts of approximately RMB2.59 million was used to secure bank loans of RMB10.0 million and prepaid premium for land leases with carrying amount of approximately RMB4.11 million was used to secure a loan of RMB1.0 million provided by the Wuyishan Finance Bureau. Save as disclosed above, the company had no charge on its assets as at 31 December 2006.

(f) Borrowings and gearing ratio

The total outstanding loans as at 31 December 2006 were RMB11.0 million which comprised RMB10.0 million secured short-term borrowings and RMB1.0 million secured long-term borrowing with interest accrued at fixed interest rates. The gearing ratio expressed by all loan balances over net asset value was 0.23 as at 31 December 2006.

(g) Foreign exchange exposure

Since the operations of the company are in the PRC and most of the transactions, monetary assets and liabilities are denominated in RMB, the company's exposure to foreign currency risk is minimal.

2. For the year ended 31 December 2007

(a) Business review

In 2007, the aggregate tea planting area of Wu Yi Shan was approximately 100,000 mu. There was only a 7.2% growth in tea planting area from 2003 to 2007. Desire Star (China) has entered into sub-contracting arrangements with local farmers of the tea planting area. Under these arrangements, Desire Star (China) rents the tea-farms from the farmers and has the right to operate the rented tea farms and sell all the produces from the tea farms. Under these various sub-contracting arrangements with the farmers with terms ranging from 5 to 20 years, Desire Star (China) has at present secured the use of a total tea planting area of approximately 7,378 mu up to 2012, approximately 5,178 mu up to 2013, approximately 1,718 mu up to 2021 and approximately 468 mu up to 2023. In addition to the sub-contracting arrangements with farmers, many other local farmers have also been co-operating with Desire

Star (China) by selling their produces to Desire Star (China). Through the sub-contracting arrangements and the co-operations with farmers, it is estimated that Desire Star (China) obtains its supply of tea leaves from approximately 29,500 mu of tea planting area. This represents approximately 28% of the total tea planting area of Wu Yi Shan.

(b) Financial result, financial position and capital structure

The net asset value was approximately RMB73.6 million. The turnover for the year ended 31 December 2007 was approximately RMB18.4 million which was generated from the sale of Chinese tea products to customers. The company recorded a net profit of approximately RMB9.36 million. The cash and bank balance at 31 December 2007 was approximately RMB3.36 million. Current liabilities amounted to approximately RMB22.92 million which comprised secured bank loans of RMB10.0 million, bearing interest ranging from 3% to 8.748% per annum and repayable within 1 year, and trade and other payables. Non current liability amounted to RMB1.0 million, which was a loan provided by the Wuyishan Finance Bureau at an interest rate of 2.4% per annum and secured by the prepaid premium for land leases with carrying amount of approximately RMB3.86 million.

The company funded its operation by its internal resources and loans. There was no change in capital structure during the year. No financial instrument was used for hedging purposes during the year.

There were no material acquisitions and disposals of subsidiaries and associated companies during the year.

As at 31 December 2007, the company had approximately RMB0.76 million capital commitment for the construction of the production facility and staff quarter. Save as disclosed above, there were no contingent liabilities and capital commitment as at 31 December 2007.

(c) Employment and remuneration policy

At 31 December 2007, the number of employees was 213. Total staff cost for the year were approximately RMB2.40 million. The remuneration policy was reviewed in line with the market conditions, current legislation and the performance of the individual employee.

(d) Future plan and prospects

Along with the changing lifestyle of people, the sale of tea bag begins to grow at an increasing rate around the world. The market share of tea bags in Europe, the United States and Canada has also grown rapidly in recent years. However, the tea bag market in the PRC has not yet been developed and only accounts for a small portion of total sales volume of tea in the PRC tea market. Such significant deviation from the size of tea bag markets in other countries provides an opportunity for Desire Star (China) to build up its market share in the tea bag market for its prestigious Da Hong Pao and Wuyi rock-essence tea. Due to the aforesaid reasons, the management planned to produce Da Hong Pao tea bag and will continue to devote effort in capturing more market share in the tea bag market.

(e) Details of charges on assets

Certain buildings with an aggregate carrying amounts of approximately RMB9.12 million was used to secure bank loans of RMB10.0 million and prepaid premium for land leases with carrying amount of approximately RMB3.86 million was used to secure a loan of RMB1.0 million provided by the Wuyishan Finance Bureau. Save as disclosed above, the company had no charge on its assets as at 31 December 2007.

(f) Borrowings and gearing ratio

The total outstanding loans as at 31 December 2007 were RMB11.0 million which comprised RMB10.0 million secured short-term borrowings and RMB1.0 million secured long-term borrowing with interest accrued at fixed interest rates. The gearing ratio expressed by all loan balances over net asset value was 0.15 as at 31 December 2007.

(g) Foreign exchange exposure

Since the operations of the company are in the PRC and most of the transactions, monetary assets and liabilities are denominated in RMB, the company's exposure to foreign currency risk is minimal.

3. For the year ended 31 December 2008

(a) Business review

During the year, King Gold, a special purpose vehicle, was incorporated in the BVI on 18 November 2008. It did not hold any assets and has not undertaken any operations since its date of incorporation. Desire Star (China) has started producing Da Hong Pao tea bag since February 2008. The increase of the production capacity and the commencement of the sale of tea bag products boost the sale of the company and the turnover for the year ended 31 December 2008 increased to approximately RMB58.69 million.

(b) Financial result, financial position and capital structure

The net asset value was approximately RMB107.08 million. The turnover for the year ended 31 December 2008 was approximately RMB58.69 million. The company recorded a net profit of approximately RMB24.13 million. The cash and bank balance at 31 December 2008 was approximately RMB2.02 million. Current liabilities amounted to approximately RMB49.47 million which comprised secured loans of RMB10.5 million, bearing interest ranging from 2.4% to 8.748% per annum and repayable within 1 year, unsecured loans of approximately RMB1.0 million bearing interest at 5.04% per annum and trade and other payables.

The company funded its operation by its internal resources and loans. There was no change in capital structure during the year. No financial instrument was used for hedging purposes during the year.

Saved for the establishment of King Gold, there were no material acquisitions and disposals of subsidiaries and associated companies during the year.

As at 31 December 2008, the company had approximately RMB1.52 million capital commitment for the acquisition of property as the sale outlet of the tea products. Save as disclosed above, there were no contingent liabilities and capital commitment.

(c) Employment and remuneration policy

At 31 December 2008, the number of employees was 259. Total staff cost for the year were approximately RMB3.8 million. The remuneration policy was reviewed in line with the market conditions, current legislation and the performance of the individual employee.

(d) Future plan and prospects

As Desire Star (China) is currently utilising only 28% of the total planting area of Wu Yi Shan, the management plans to expand the sub-contracting arrangements and co-operation with local farmers in order to foster the production capacity of tea products. The company will continue to devote effort in capturing more market share in the tea bag market for its prestigious Da Hong Pao and Wuyi rock-essence tea.

(e) Details of charges on assets

Certain buildings with an aggregate carrying amounts of approximately RMB10.0 million was used to secure bank loans of RMB10.0 million and prepaid premium for land leases with carrying amount of approximately RMB3.71 million was used to secure a loan of RMB0.5 million provided by the Wuyishan Finance Bureau. Save as disclosed above, the company had no charge on its assets as at 31 December 2008.

(f) Borrowings and gearing ratio

The total outstanding loans as at 31 December 2008 were approximately RMB11.50 million which comprised RMB10.5 million secured short-term borrowings and RMB1.0 million unsecured short-term borrowing with interest accrued at fixed interest rates. The gearing ratio expressed by all loan balances over net asset value was 0.11 as at 31 December 2008.

(g) Foreign exchange exposure

Since the operations of the company are in the PRC and most of the transactions, monetary assets and liabilities are denominated in RMB, the company's exposure to foreign currency risk is minimal.

The following unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Acquisition on the assets and liabilities of the Group as if the Acquisition had taken place on 30 June 2008.

(A) UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The unaudited pro forma statement of assets and liabilities of the Enlarged Group is prepared based on (i) the unaudited condensed consolidated balance sheet extracted from the published interim report of the Group as at 30 June 2008; and (ii) the audited combined balance sheet of King Gold Group as at 31 December 2008 as extracted from the accountants' report thereon set out in Appendix II to this circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable, as if the Acquisition had been completed on 30 June 2008.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared to provide the unaudited pro forma financial information of the Enlarged Group as if the Acquisition had been completed on 30 June 2008. As it is prepared for illustrative purpose only and because of its hypothetical nature, it may not purport to give a true picture of the financial position of the Enlarged Group as at 30 June 2008 or at any future date.

	The Group as at 30 June 2008	King Gold Group as at 31 December 2008	Pro forma adjustments						Pro forma Enlarged Group
			(note 1)	*(note 2)*	*(note 3)*	*(note 4)*	*(note 5)*	*(note 6)*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		HK$1= RMB0.8796							
Non-current assets									
Fixed assets									
— Property, plant and equipment	481,982	24,350							506,332
— Interests in leasehold land held for own use under operating leases	307,874	8,136							316,010
Construction in progress	100,556	21,500							122,056
Intangible assets	4,219,936	45							4,219,981
Goodwill	8,200	—		542,610					550,810
Interest in jointly controlled entities	—	—							—
Other receivables	82,065	—							82,065
Available-for-sale securities	14,292	—							14,292
Deferred tax assets	2,568	—							2,568
	5,217,473	54,031							5,814,114
Current assets									
Inventories	141,165	31,083							172,248
Trade and other receivables	411,084	90,191			(67,655)			(590)	433,030
Prepaid premium for land leases	—	377							377
Cash and cash equivalents	1,092,623	2,291	(500,000)		67,655	(11,859)	45,236	600	696,546
	1,644,872	123,942							1,302,201
Current liabilities									
Trade and other payables	(324,698)	(43,162)							(367,860)
Deferred income	(64,255)	—							(64,255)
Bank loans	(124,305)	(11,369)							(135,674)
Other loans	(1,135)	(1,705)							(2,840)
Loans from minority shareholders	(150,500)	—							(150,500)
Current taxation	(110,365)	—							(110,365)
	(775,258)	(56,236)							(831,494)
Net current assets	869,614	67,706							470,707

	The Group as at 30 June 2008	King Gold Group as at 31 December 2008	Pro forma adjustments						Pro forma Enlarged Group
			(note 1)	*(note 2)*	*(note 3)*	*(note 4)*	*(note 5)*	*(note 6)*	
	HK$'000	*HK$'000 HK$1= RMB0.8796*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets less current liabilities	6,087,087	121,737							6,284,821
Non-current liabilities									
Other payables	(95,092)	–							(95,092)
Deferred income	(83,657)	–							(83,657)
Bank loans	(90,816)	–							(90,816)
Other loans	(4,870)	–							(4,870)
Deferred tax liabilities	(733,382)	–							(733,382)
	(1,007,817)	–							(1,007,817)
Net assets	5,079,270	121,737							5,277,004

Notes:

1. Adjustment for the consideration of HK$640 million for the acquisition of the interest in 80% of capital of the King Gold Group, which is to be satisfied in full by way of (i) the issue of 660,377,358 Shares at a price of HK$0.212 each; and (ii) cash as to remaining HK$500 million.

2. The acquisition of the 80% interest in the King Gold Group was assumed to be completed on 30 June 2008 and with reference to the carrying value of 80% of net assets of King Gold Group as at 31 December 2008, the Group recognised a goodwill of approximately HK$542,610,000 (the consideration of HK$640,000,000 less the carrying value of 80% of net assets of the King Gold Group of RMB85,664,000 (equivalent to approximately HK$97,390,000)) from the acquisition of the King Gold Group. Since the carrying amounts of the identifiable assets and liabilities of the King Gold Group at the date of Completion may be different from their carrying amounts as at 31 December 2008, the actual goodwill arising from the Acquisition may be different from that presented above.

3. Adjustment to record the settlement of amount due from a director to the King Gold Group on Completion.

4. Adjustment to record the payment of transaction costs directly attributable to the Acquisition.

5. Adjustment to record the remaining balance of registered capital of Desire Star (China) of RMB39,790,000 (equivalent to approximately HK$45,236,000) to be fully paid up by way of cash on Completion.

6. Adjustment reflects the carrying values of the assets and liabilities of China Dahongpao Tea to be disposed of by Desire Star (China) to Mr. Ho Yat Sum as part of the Reorganisation. The consideration for the transfer shall be satisfied as to HK$600,000 by payment by Mr. Ho Yat Sum in cash.

(B) COMFORT LETTER ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a comfort letter, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, CCIF CPA Limited, Certified Public Accountants, Hong Kong.

CCIF

CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay, Hong Kong

27 March 2009

The Board of Directors
China Mining Resources Group Limited
Room 1306, 13th Floor
Bank of America Tower
12 Harcourt Road
Admiralty
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of China Mining Resources Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the major transaction in relation to the acquisition of 80% interest in King Gold Investments Limited might have affected the financial information presented, for inclusion in Appendix III to the circular dated 27 March 2009 (the "Circular"). The basis of preparation of unaudited pro forma financial information is set out in Appendix III to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

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

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

Basis of Opinion

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

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

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the unaudited proforma financial information.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 30 June 2008 or any future date.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

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

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully

CCIF CPA Limited
Certified Public Accountants

Sze Chor Chun, Yvonne
Practising Certificate Number P05049
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Enlarged Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

Assuming there is no change to the number of Shares in issue from the Latest Practicable Date to the Completion Date, the authorised and issued share capital of the Company (a) as at the Latest Practicable Date; and (b) after Completion and upon issue of the Consideration Shares will be as follows:

(a) As at the Latest Practicable Date

Authorised:		*HK$*
10,000,000,000	Shares	1,000,000,000
Issued and fully paid:		
6,026,652,853	Shares	602,665,285.30

(b) After Completion and upon issue of the Consideration Shares

Authorised:		*HK$*
10,000,000,000	Shares	1,000,000,000
Issued and fully paid:		
6,026,652,853	Existing Shares	602,665,285.30
660,377,358	Consideration Shares to be alloted and issued	66,037,735.80
6,687,030,211		668,703,021.10

3. DISCLOSURE OF INTERESTS

(a) Interests of the Directors or chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) were required, pursuant to the Model Code for

Securities Transactions by Directors of Listed Issuers (the "Model Code") adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

(i) Interests in the Shares and underlying Shares under equity derivatives (as defined in Part XV of the SFO)

Name of Director/ chief executive	Long position/ short position	Capacity	Number of Shares	Total interests in underlying Shares pursuant to share options	Approximate % of shareholding in the Company
Cai Yuan *(note)* (蔡原)	Long position	Beneficial owner and interest in controlled corporation	508,650,000	3,000,000	8.49%
You Xian Sheng (游憲生)	Long position	Beneficial owner	—	40,000,000	0.66%
Wang Hui (王輝)	Long position	Beneficial owner	—	35,000,000	0.58%
Yeung Kwok Kuen (楊國權)	Long position	Beneficial owner	—	35,000,000	0.58%
Chan Shou Wu (陳守武)	Long position	Beneficial owner	—	35,000,000	0.58%
Lam Ming Yung (林明勇)	Long position	Beneficial owner	—	3,000,000	0.05%
Chan Sze Hon (陳思翰)	Long position	Beneficial owner	—	3,000,000	0.05%
Chu Kang Nam (朱耿南)	Long position	Beneficial owner	—	3,000,000	0.05%
Goh Choo Hwee (吳慈飛)	Long position	Beneficial owner	—	3,000,000	0.05%
Lin Xiang Min (林香民)	Long position	Beneficial owner	—	3,000,000	0.05%
Yin Guangyuan (尹光遠)	Long position	Beneficial owner	—	35,000,000	0.58%
Qiao Hongbo (喬洪波)	Long position	Beneficial owner	—	10,000,000	0.17%
Su Qingyu (蘇慶玉)	Long position	Beneficial owner	—	10,000,000	0.17%
Qu Yanchun (曲彥春)	Long position	Beneficial owner	—	10,000,000	0.17%
Leung Lai Ming (梁麗明)	Long position	Beneficial owner	—	5,000,000	0.08%

Note: Mr. Cai Yuan, the chairman, an executive Director, is the 100% beneficial owner of Greater Increase Investments Limited which holds 500,000,000 Shares. Mr. Cai also holds 8,650,000 Shares under his name.

(ii) Interests in the share options of the Company

Name of Director/ chief executive	Date of grant of share options	Exercisable period	Exercise price per Share *(HK$)*	Number of options outstanding	Approximate % of shareholding in the Company
Cai Yuan (蔡原)	14/10/2008	14/10/2008 – 13/10/2013	0.275	3,000,000	0.05%
You Xian Sheng (游憲生)	14/10/2008	14/10/2008 – 13/10/2013	0.275	40,000,000	0.66%
Wang Hui (王輝)	14/10/2008	14/10/2008 – 13/10/2013	0.275	35,000,000	0.58%
Yeung Kwok Kuen (楊國權)	14/10/2008	14/10/2008 – 13/10/2013	0.275	35,000,000	0.58%
Chan Shou Wu (陳守武)	14/10/2008	14/10/2008 – 13/10/2013	0.275	35,000,000	0.58%
Lam Ming Yung (林明勇)	14/10/2008	14/10/2008 – 13/10/2013	0.275	3,000,000	0.05%
Chan Sze Hon (陳思翰)	14/10/2008	14/10/2008 – 13/10/2013	0.275	3,000,000	0.05%
Chu Kang Nam (朱耿南)	14/10/2008	14/10/2008 – 13/10/2013	0.275	3,000,000	0.05%
Goh Choo Hwee (吳慈飛)	14/10/2008	14/10/2008 – 13/10/2013	0.275	3,000,000	0.05%
Lin Xiang Min (林香民)	14/10/2008	14/10/2008 – 13/10/2013	0.275	3,000,000	0.05%
Yin Guangyuan (尹光遠)	14/10/2008	14/10/2008 – 13/10/2013	0.275	35,000,000	0.58%
Qiao Hongbo (喬洪波)	14/10/2008	14/10/2008 – 13/10/2013	0.275	10,000,000	0.17%
Su Qingyu (蘇慶玉)	14/10/2008	14/10/2008 – 13/10/2013	0.275	10,000,000	0.17%
Qu Yanchun (曲彥春)	14/10/2008	14/10/2008 – 13/10/2013	0.275	10,000,000	0.17%
Leung Lai Ming (梁麗明)	14/10/2008	14/10/2008 – 13/10/2013	0.275	5,000,000	0.08%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) were required, pursuant to the Model Code adopted by the Company, to be notified to the Company and the Stock Exchange.

(b) Interests of Shareholders discloseable pursuant to the SFO

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company based on the register maintained by the Company pursuant to Part XV of the SFO, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Enlarged Group or had any option in respect of such capital:

(i) Interests in the Shares

Name of Shareholder	Long position/ short position	Capacity	Number of Shares	Approximate % of shareholding in the Company
Greater Increase Investments Limited *(note 1)*	Long position	Beneficial owner	500,000,000	8.30%
Kwok Man (郭敏) *(note 2)*	Long position	Beneficial owner and interest in controlled corporation	393,986,000	6.54
Ho Ho Wai (何豪威) *(note 3)*	Long position	Beneficial owner and interest in controlled corporation	661,177,358	10.97%

Note:

1. These Shares are held by Greater Increase Investments Limited which is 100% beneficially owned by Mr. Cai Yuan, the chairman and an executive Director of the Company.

2. Out of the 393,986,000 Shares, 368,686,000 Shares are held by Long Cheer Group Limited, which is 100% beneficially owned by Mr. Kwok Man. The remaining 25,300,000 Shares are held by Mr. Kwok Man personally.

3. Master Long is a company wholly and beneficially owned by Mr. Ho Ho Wai. Pursuant to the Agreement, the Company would issue Shares equivalent to an amount of HK$140,000,000 (subject to adjustment) at an issue price of HK$0.212 per Share (namely, 660,377,358 Shares) to Master Long as part of the Consideration. The remaining 800,000 Shares are held by Mr. Ho Ho Wai personally.

(ii) Other members of the Enlarged Group

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the other members of the Enlarged Group.

Name of shareholders	Name of company	Capacity	Number of shares in the capital of the company	Approximate % of shareholding
Long Cheer Group Limited	Lead Sun Investments Limited	Beneficial owner	140	14%
Fit Plus Limited	Lead Sun Investments Limited	Beneficial owner	140	14%
See Good Group Limited	Lead Sun Investments Limited	Beneficial owner	150	15%
忻州開發天陽鈦業有限責任公司 (Xinzhou Tianyang Titanium Co., Ltd.)	山西神利航天鈦業有限公司 (Shanxi Shenli Aerospace Titanium Co., Ltd.)	Beneficial owner	Not applicable	10%
杉杉投資控股有限公司 (ShanShan Investments Holding Co., Ltd.)	哈爾濱松江銅業(集團)有限公司 (Harbin Songjiang Copper (Group) Company Limited)	Beneficial owner	Not applicable	24.92%
王保棟 (Wang Bao Dong)	巴林右旗諾爾蓋銅礦有限公司 (Balinyouqi Nuoergai Copper Mining Co. Ltd.)	Beneficial owner	Not applicable	40%

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company based on the register maintained by the Company pursuant to Part XV of the SFO, no other persons (not being a Director or chief executive of the Company) had, or deemed to have, any interests or short positions in the shares or underlying shares which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, nor were there any persons, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Enlarged Group or held any option in respect of such capital.

(c) Competing interests

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business apart from the Enlarged Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Enlarged Group.

(d) Other interests

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2007 (being the date to which the latest published audited accounts of the Company were made up), been (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Enlarged Group.

Save as disclosed above, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

4. MATERIAL CONTRACTS

The following are contracts (not being contracts entered into in the ordinary course of business) entered into by the Enlarged Group within the two years immediately preceding the Latest Practicable Date and which are or may be material:

(a) a joint venture deed (the "**Joint Venture Deed**") dated 18 May 2007 entered into between the Company and GOVI Highpower Exploration, Inc. ("**GoviEx**"), for the purpose of, inter alia, establishing a joint venture company in the British Virgin Islands, a Hong Kong company and a PRC company to undertake mining exploration and development projects in the Fujian province of the PRC;

(b) an amendment agreement (the "**Amended Joint Venture Deed**") dated 6 November 2007 entered into between the Company, GoviEx and GoviEx Gold Inc ("**GoviEx China**"), pursuant to which, inter alia, GoviEx China substituted GoviEx as a party to the Joint Venture Deed;

(c) a deed of termination dated 12 February 2009 entered into between the Company and GoviEx China, pursuant to which the Joint Venture Deed and the Amended Joint Venture Deed were terminated;

(d) a placing agreement dated 21 June 2007 entered into between the Company and Morgan Stanley & Co. International plc. in relation to the placing of up to 1,305,872,000 Shares;

(e) a subscription agreement (the "**Subscription Agreement**") dated 13 July 2007 entered into between the Company and Mr. Wu King Shiu Kelvin (胡景邵), Mr. Dong Wenxue (董文學), Mr. Wang Hui (王輝), Mr. Yeung Kwok Kuen (楊國權), Mr. Yin Guangyuan (尹光遠), Mr. Qiao Hongbo (喬洪波), Mr. Su Qingyu (蘇慶玉) and Mr. Qu Yanchun (曲彥春) (collectively the "**Subscribers**") relating to, amongst other things, the subscriptions and repurchases of Shares (details of which are set out in the circular of the Company dated 6 August 2007);

(f) a deed of termination of the Subscription Agreement dated 26 May 2008 entered into between the Company and the Subscribers, pursuant to which the Subscription Agreement was terminated with immediate effect;

(g) an exclusivity agreement dated 25 June 2007 entered into between the Company and the legal and beneficial owner of the entire issued share capital of Fullight Investments Limited (the "**Fullight Vendor**") setting out the exclusivity provision and other basic understanding between the parties thereto in connection with the proposed acquisition by the Company of the entire issued share capital of Fullight Investments Limited;

(h) a supplemental agreement dated 17 July 2007 entered into between the Company and the Fullight Vendor with respect to the exclusivity agreement set out in item (g) above;

(i) a second supplemental agreement dated 21 December 2007 entered into between the Company and the Fullight Vendor with respect to the exclusivity agreement and the supplemental agreement set out in items (g) and (h) above;

(j) a memorandum of understanding dated 20 June 2008 entered into between the Company and the Fullight Vendor in respect of the proposed acquisition by the Company of the entire issued share capital of Fullight Investments Limited and all amounts owing from Fullight Investments Limited to the Fullight Vendor and/or its associates upon completion;

(k) an agreement dated 21 November 2008 entered into between Biogrowth Assets Limited, a wholly-owned subsidiary of the Company, and United Easy Investments Limited in respect of the disposal of the entire issued share capital of Cell Therapy Technologies Centre Limited by Biogrowth Assets Limited;

(l) the Agreement;

(m) a supplemental agreement dated 2 January 2009 with respect to the Agreement; and

(n) a further supplemental agreement dated 16 March 2009 with respect to the Agreement and the supplemental agreement set out in items (l) and (m) above.

5. CLAIMS AND LITIGATION

As at the Latest Practicable Date, as disclosed in the interim report of the Company for the six months ended 30 June 2008, there is a dispute between two former shareholders of Top Rank International Group Limited, a subsidiary of the Company, which owns 90% equity interest in Shanxi Shenli Aerospace Titanium Company, a company which holds a rutile mine. A judgement was made by the Shenzhen City Middle People's Court on 17 December 2007 in favour of the relevant members of the Group. As set out in the 2007 annual report and the announcement of the Company dated 18 March 2008, the Company has on 6 March 2008 received a copy of the Application for Civil Appeal (民事上訴書) dated 3 March 2008 from the plaintiff which was lodged with the Guangdong Province High Court (the "Application"), pursuant to which the plaintiff has made an application to the Guangdong Province High Court to appeal for the revocation of the judgement orders (a) and (c) made against the plaintiff as referred to in the announcement of the Company dated 4 February 2008 and for support of all claims of the plaintiff. The court hearing was held in June 2008 and, as at the Latest Practicable Date, the Company has not received any judgement issued by the Guangdong Province High Court in relation to the Application.

As at the Latest Practicable Date, save as disclosed above, no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Enlarged Group which does not expire or is not determinable by the Enlarged Group within one year without payment of compensation (other than statutory compensation).

7. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinions or advice contained in this circular:

Name	Qualification
CCIF CPA Limited ("CCIF")	certified public accountants

CCIF has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, CCIF had no shareholding, directly or indirectly, in any member of the Enlarged Group or the 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, CCIF had no direct or indirect interests in any assets which had been, since 31 December 2007 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Enlarged Group.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's head office and principal place of business in Hong Kong at Room 1306, 13th Floor, Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong, from the date of this circular and up to and including the date of the SGM:

(a) the memorandum of association and bye-laws of the Company;

(b) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(c) the published annual reports of the Company for each of the two financial years ended 31 December 2006 and 2007;

(d) the accountants' report on the King Gold Group, the text of which is set out in Appendix II to this circular;

(e) the letter from CCIF in relation to the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(f) the letter of consent referred to in the paragraph headed "Expert and consent" in this appendix; and

(g) a copy of each circular issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which has been issued since 31 December 2007 (being the date of the latest published audited accounts).

9. MISCELLANEOUS

(a) The company secretary of the Company is Ms. Leung Lai Ming. Ms. Leung is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants.

(b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

(c) The head office and principal place of business of the Company in Hong Kong is situated at Room 1306, 13th Floor, Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong.

(d) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) The English text of this circular shall prevail over the corresponding Chinese text.

中國礦業資源集團有限公司*

China Mining Resources Group Limited

(incorporated in Bermuda with limited liability)

(Stock Code : 340)

NOTICE IS HEREBY GIVEN that the special general meeting of China Mining Resources Group Limited (the "**Company**") will be held on Monday, 20 April 2009 at 2:30 p.m. at Room 1306, 13/F., Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the sale and purchase agreement dated 22 December 2008 (which is supplemented by a supplemental agreement dated 2 January 2009 and a further supplemental agreement dated 16 March 2009) (collectively referred to as the "**Agreement**") entered into between the Company, Joy Success Limited and Master Long Limited (collectively referred to as the "**Vendors**") and Mr. Ho Yat Sum and Mr. Ho Ho Wai, copies of which are tabled at the meeting and marked "**A**", "**B**" and "**C**" and initialed by the chairman of the meeting for identification purpose, pursuant to which the Company has conditionally agreed to acquire and the Vendors conditionally agreed to sell 80 shares of US$1.00 each in the capital of King Gold Investments Limited ("**King Gold**") (the "**Sale Shares**") representing 80% of the issued capital of King Gold for a total consideration of HK$640,000,000 (subject to adjustment) pursuant to the Agreement (the "**Acquisition**"), be and is hereby approved, ratified and confirmed;

(b) subject to the approval by the shareholders of the Company of the Acquisition and the Listing Committee granting the approval of and the permission to deal in the Consideration Shares (as defined in the circular of the Company dated 27 March 2009 (the "**Circular**")), the issue of the Consideration Shares as part consideration for the Acquisition be and is hereby confirmed and approved; and

(c) any one director of the Company, or if the affixation of the common seal is necessary, any two directors of the Company or any one director of the Company and the Secretary of the Company or such other person(s) as the board of director may appoint, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Agreement."

By Order of the Board
China Mining Resources Group Limited
Cai Yuan
Chairman

Hong Kong, 27 March 2009

* *For identification purpose only*

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Notes:

(1) A member entitled to attend and vote at the above meeting may appoint a proxy to attend and vote on his behalf and such proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed.

(2) A form of proxy in respect of the meeting is enclosed. If you are not able to attend the meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon.

(3) In order to be valid, the form of proxy, together with any power of attorney or authority under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1806–7, 18/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

(4) Where there are joint holders of a share of the Company, any one of such holders may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitle thereto, but if more than one of such holders are present at the 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, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.

As at the date of this notice, the Board comprises Mr. Cai Yuan, Dr. You Xian Sheng, Mr. Wang Hui, Mr. Yeung Kwok Kuen and Mr. Chen Shou Wu as executive Directors, Mr. Lam Ming Yung as non-executive Director and Mr. Chan Sze Hon, Mr. Chu Kang Nam, Mr. Goh Choo Hwee and Mr. Lin Xiang Min as independent non-executive Directors.