THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Pan Asia Mining Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is not and does not constitute an invitation or offer to acquire, purchase or subscribe for the shares or other securities of the Company.

This circular is addressed to the Shareholders in connection with an extraordinary general meeting of the Company to be held on 10 August 2010.

This document, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors , having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement in this circular misleading.

PAN ASIA MINING LIMITED
寰亞礦業有限公司

PAN ASIA MINING LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8173)

ISSUE OF THE SUBSCRIPTION SHARES AND THE 2010 CONVERTIBLE BONDS

DEBT RESTRUCTURING AGREEMENT INVOLVING CONNECTED TRANSACTION

APPLICATION FOR THE WHITEWASH WAIVER AND CONSENT TO THE SPECIAL DEAL

GRANT OF SPECIAL MANDATE

INCREASE IN AUTHORISED SHARE CAPITAL

APPOINTMENT OF NEW DIRECTORS

Joint Independent Financial Advisers to the Independent Board Committee and the Independent Shareholders

Nuada Limited
Corporate Finance Advisory

Donvex 富域資本
Donvex Capital Limited
富域資本有限公司

A letter of advice from the joint independent financial advisers, Donvex Capital Limited and Nuada Limited, to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 40 of this circular. The recommendations of the Independent Board Committee to the Independent Shareholders are set out on pages 27 and 28 of this circular.

A notice convening the EGM to be held at Board Room, 1st Floor, South Pacific Hotel, 23 Morrison Hill Road, Wanchai, Hong Kong on Tuesday, 10 August 2010 at 11:30 a.m. is set out on pages N-1 and N-5 of this circular. A form of proxy is also enclosed. Whether or not you are able to attend and vote at the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the branch registrar of the Company in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from subsequently attending and voting at the EGM or any adjournment thereof, should you so wish. This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least seven days from the date of its posting.

20 July 2010

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

CONTENTS

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

"2008 Kesterion Convertible Bonds"	the ten-year unsecured, non-interest bearing transferrable convertible bonds issued to Kesterion by the Company on 18 December 2008 in the principal amount of approximately US$201.5 million (equivalent to approximately HK$1,571.5 million);
"2010 Convertible Bonds"	the three-year unsecured and non-interest bearing transferrable convertible bonds proposed to be issued to the Investor by the Company in the principal amount of US$64,102,564.0 (equivalent to approximately HK$500.0 million) pursuant to the Investment Agreement;
"acting in concert"	has the meaning ascribed to it in the Takeovers Code;
"Announcement"	the announcement dated 14 May 2010 issued by the Company in relation to the transactions contemplated under the Investment Agreement and the Debt Restructuring Agreement, the Whitewash Waiver, the Special Deal and the Special Mandate;
"associate(s)"	has the meaning ascribed to it in the GEM Listing Rules;
"Black Sand"	Black Sand Enterprises Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company;
"Board"	the board of Directors;
"Business Day"	a day (excluding Saturday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours;
"BVI"	the British Virgin Islands;
"Company"	Pan Asia Mining Limited, a company incorporated in the Cayman Islands with limited liability with the Shares listed on GEM;
"Conversion Price"	HK$0.25 per Share, subject to customary adjustments in certain events, at which each Share shall be allotted and issued pursuant to the exercise of the Conversion Rights;
"Conversion Rights"	the rights of the bondholder to convert the whole or part of the principal amount of the 2010 Convertible Bonds into Shares subject to the terms and conditions of the relevant bond instrument;

"Conversion Shares"	2,000,000,000 new Shares which may be allotted and issued by the Company under the Special Mandate upon full exercise of the Conversion Rights;
"Debt Restructuring Agreement"	the conditional debt restructuring agreement dated 14 May 2010 entered into between the Company, Black Sand and Kesterion, in respect of the restructuring of the Kesterion Existing Debts;
"Directors"	the directors of the Company;
"Donvex Capital"	Donvex Capital Limited, a licensed corporation under the SFO to carry on type 6 (advising on corporate finance) regulated activity, one of the Joint Independent Financial Advisers;
"EGM"	the extraordinary general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving, amongst other things, the transactions contemplated under the Investment Agreement and the Debt Restructuring Agreement, the Whitewash Waiver, the Special Deal, the Special Mandate, the increase in the authorized share capital of the Company and the appointment of new Directors;
"Executive"	the executive director of the Corporate Finance Division of the SFC or any delegate thereof;
"Existing General Mandate"	the general mandate granted to the Board at the annual general meeting of the Company held on 22 July 2009;
"GEM"	The Growth Enterprise Market of the Stock Exchange;
"GEM Listing Rules"	The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited;
"Group"	the Company and its subsidiaries. For the purpose of due diligence conducted by the Investor as one of the conditions precedent to completion of the Investment Agreement, the "Group" shall also include the associated companies and jointly controlled entities (if any) of the Group;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC;

"Independent Board Committee"	a committee of the Board comprising all independent non-executive Directors, namely Mr. LAI Kai Jin, Michael, Mr. CHAN Siu Wing, Raymond and Mr. CHU Hung Lin, Victor, and does not include Mr. YIN Mark Teh-min, a non-executive Director, who is a member of the Kesterion Group, which has been established to advise the Independent Shareholders in respect of the transactions contemplated under the Investment Agreement and the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal;
"Independent Shareholders"	the Shareholders other than the Investor, its ultimate beneficial owners and the parties acting in concert with any of them, the Kesterion Group and anyone who was involved, or interested in, the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal;
"Independent Third Party"	any party who is independent and is not connected with any of the directors, chief executives or substantial shareholders of any member of the Group or their respective associates;
"Investment Agreement"	the conditional investment agreement dated 9 April 2010 (as amended and supplemented on 14 May 2010) and entered into between the Company and the Investor for the purpose of subscribing for the Subscription Shares and the 2010 Convertible Bonds;
"Investor"	China Raybo International Corp., Ltd., a limited liability company established in the PRC on 1 March 1985;
"Issue Date"	the date of issue of the 2010 Convertible Bonds;
"Joint Independent Financial Adviser(s)"	the joint independent financial advisers, Nuada and Donvex Capital, appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the transactions contemplated under the Investment Agreement and the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal;
"Kesterion"	Kesterion Investments Limited, a company incorporated in the BVI and is beneficially owned by Ms. Eva WONG, a sister of Mr. WONG Chung Yu, Denny, an executive Director, and a sister-in-law of Mr. YIN Mark Teh-min, a non-executive Director, and a connected person and a substantial shareholder of the Company;

"Kesterion Existing Debts"	the aggregate amount of HK$1,769.5 million due from the Company to Kesterion comprising (a) the outstanding principal amount under the 2008 Kesterion Convertible Bonds of approximately US$201.5 million (equivalent to approximately HK$1,571.5 million), (b) the outstanding principal amount under the Kesterion Existing Promissory Notes of HK$190.0 million and (c) the outstanding principal amount of the Kesterion Existing Short-term Loans of HK$8.0 million;
"Kesterion Existing Promissory Notes"	the promissory notes in the principal sum of HK$190.0 million due for payment by Black Sand to Kesterion on 18 June 2010 (out of an aggregate principal amount of HK$200.0 million promissory notes issued as part of the very substantial acquisition carried out by Black Sand as set forth in the Company's circular to the Shareholders dated 21 November 2008);
"Kesterion Existing Short-term Loans"	the unsecured and interest free short-term loans from Kesterion in an aggregate amount of HK$8.0 million (the amount of which may increase depending on the operating requirements of the Group but shall not exceed HK$15.0 million) which are repayable on demand and have no fixed repayment date;
"Kesterion Group"	Ms. Eva WONG, Mr. WONG Chung Yu, Denny, Mr. YIN Mark Teh-min, Kesterion and their respective associates and parties acting in concert with any of them;
"Last Trading Day"	1 April 2010, being the last full trading day immediately before the suspension of trading in the Shares pending the release of the Announcement;
"Latest Practicable Date"	16 July 2010;
"Long Stop Date"	30 September 2010 or such other date as the Company and the Investor may agree in writing;
"Nuada"	Nuada Limited, a licensed corporation under the SFO to carry on type 6 (advising on corporate finance) regulated activity, one of the Joint Independent Financial Advisers;
"PRC"	The People's Republic of China which for the purpose of this circular, does not include Hong Kong, The Macau Special Administrative Region of the PRC and Taiwan;
"Proposed Open Offer"	has the same meaning as "Open Offer" as defined in the announcement of the Company dated 23 February 2010;

"Proposed Share Consolidation"	has the same meaning as "Share Consolidation" as defined in the announcement of the Company dated 23 February 2010;
"relevant securities"	has the meaning ascribed to it in Note 4 to Rule 22 of the Takeover Code;
"SFC"	the Securities and Futures Commission of Hong Kong;
"SFO"	the Securities and Futures Ordinance (Chapter 571) of the Laws of Hong Kong;
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company;
"Share Option Scheme"	the share option scheme adopted by the Company in a general meeting held on 25 April 2002;
"Shareholder(s)"	holder(s) of the Share(s) from time to time;
"Special Deal"	the settlement of the Kesterion Existing Debts in cash under the Debt Restructuring Agreement which constitutes a special deal under Rule 25 of the Takeovers Code;
"Special Mandate"	a special mandate to be sought from the Shareholders at the EGM to allot and issue the Subscription Shares and the Conversion Shares;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Subscription Price"	the subscription price of HK$0.25 for each Subscription Share under the Investment Agreement;
"Subscription Shares"	10,000,000,000 new Shares to be allotted and issued to the Investor pursuant to the terms and conditions set forth in the Investment Agreement;
"substantial shareholder"	has the same meaning as set out in the GEM Listing Rules;
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers;
"US$"	US dollars, the lawful currency of the United States; and
"Whitewash Waiver"	the waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code of the obligations on the part of the Investor, its ultimate beneficial owner and parties acting in concert with it to make a mandatory offer for all the Shares not already owned or agreed to be acquired by the Investor, its ultimate beneficial owner and parties acting in concert with any of them which would otherwise arise as a result of the subscription of the Subscription Shares.

PAN ASIA MINING LIMITED
寰亞礦業有限公司

PAN ASIA MINING LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 8173)

Executive Directors:
Mr. Wong Chung Yu Denny
Mr. Liu Junqing

Non-executive Director:
Mr. Yin Mark Teh-min

Independent non-executive Directors:
Mr. Lai Kai Jin, Michael
Mr. Chan Siu Wing, Raymond
Mr. Chu Hung Lin, Victor

Registered office:
P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

Principal place of business in Hong Kong:
Suite 3008, Tower One, Times Square
One Matheson Street
Causeway Bay, Hong Kong

20 July 2010

To the Shareholders

Dear Sir or Madam,

ISSUE OF THE SUBSCRIPTION SHARES AND THE 2010 CONVERTIBLE BONDS; DEBT RESTRUCTURING AGREEMENT INVOLVING CONNECTED TRANSACTION; APPLICATION FOR THE WHITEWASH WAIVER AND CONSENT TO THE SPECIAL DEAL; GRANT OF SPECIAL MANDATE; PROPOSED INCREASE IN THE AUTHORIZED SHARE CAPITAL OF THE COMPANY; AND APPOINTMENT OF NEW DIRECTORS.

1. INTRODUCTION

On 14 May 2010, the Board announced that an Investment Agreement was entered into between the Company and the Investor whereby the Investor has agreed, subject to certain conditions precedent to be satisfied, to subscribe for the Subscription Shares and the 2010 Convertible Bonds.

In the same announcement, the Board also announced that the Company entered into the Debt Restructuring Agreement to restructure the Kesterion Existing Debts and pursuant to which, the Company will repay the Kesterion Existing Debts in full by way of cash received from the net proceeds following completion of the Investment Agreement.

The purpose of this circular is to provide you with, among others, (i) details of (a) the Investment Agreement, (b) the 2010 Convertible Bonds, (c) the Debt Restructuring Agreement, (d) the Whitewash Waiver, (e) the Special Deal, (f) the proposed increase in the authorized share capital of the Company and (g) biographical information on the persons proposed to be appointed as Directors; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Joint Independent Financial Advisers to the Independent Board Committee and the Independent Shareholders on the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal; and (iv) the notice of the EGM.

An Independent Board Committee comprising the independent non-executive Directors has been formed to make recommendations to the Independent Shareholders in respect of voting on the resolutions to approve the transactions contemplated under the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal.

Nuada and Donvex Capital have been appointed as Joint Independent Financial Advisers to advise the Independent Board Committee and the Independent Shareholders in respect of the resolutions to approve the transactions contemplated under the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal.

(A) INVESTMENT AGREEMENT

PRINCIPAL TERMS OF THE INVESTMENT AGREEMENT

Date:	9 April 2010 (as amended and supplemented on 14 May 2010)
Issuer:	The Company
Investor:	China Raybo International Corp., Ltd., a limited liability company established in the PRC. Additional information on the Investor is set forth in the paragraph headed “Background Information and Intention of the Investor” in this letter. The Investor and its ultimate beneficial owners are independent of and not connected and not acting in concert with the Company, the Directors, chief executive or substantial shareholders of any member of the Group or any of their respective associates.

Number of the Subscription Shares

10,000,000,000 new Shares to be subscribed by the Investor, representing approximately 131.6% of the existing number of Shares in issue and approximately 56.8% of the number of Shares in issue as enlarged by the Subscription Shares.

Subscription Price

The aggregate consideration payable by the Investor for the Subscription Shares in cash is HK$2,500.0 million. The subscription price of HK$0.25 per Subscription Share represents:

(i) a premium of approximately 204.9% to the closing price of HK$0.082 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a premium of approximately 108.3% to the closing price of HK$0.12 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a premium of approximately 208.6% to the average closing price of HK$0.081 per Share for the five consecutive trading days up to and including the Last Trading Day; and

(iv) a premium of approximately 338.6% to the average closing price of HK$0.057 per Share for the ten consecutive trading days up to and including the Last Trading Day.

The Subscription Price also represents approximately 75.5% discount to the net asset value per Share of approximately HK$1.02 which is based on the latest number of Shares in issue of 7,601,534,023 and the consolidated net asset value of the Group of approximately HK$7,772.2 million reported in the audited consolidated accounts of the Group as of 31 March 2010.

Special Mandate to allot and issue the Subscription Shares

The Company will seek the Special Mandate to issue the Subscription Shares (as well as the Conversion Shares to be issued under the 2010 Convertible Bonds).

Ranking of the Subscription Shares

The Subscription Shares, when issued and fully paid, will rank pari passu in all respects with the Shares in issue on the completion date of allotment and issue of the Subscription Shares including the right to any dividend or distribution after the date of completion of allotment and issue of the Subscription Shares.

Conditions precedent in the Investment Agreement

The allotment and issue of the Subscription Shares is conditional upon various conditions precedent set forth in the Investment Agreement. A list of such conditions precedent is set forth in the paragraph headed "Conditions Precedent to Completion of the Investment Agreement" in this letter.

In the event that the conditions precedent (other than completion of the Debt Restructuring Agreement which shall take place concurrently with completion of the Investment Agreement) are not fulfilled (or waived, as the case may be) prior to the Long Stop Date, the Investment Agreement will lapse and the parties thereto will be released from all obligations thereunder, save for liabilities for any antecedent breaches of the relevant terms set forth thereunder.

Undertakings by the Company

Subject to completion of the Investment Agreement, the Company shall undertake to the Investor:-

(1) unless with the prior written consent of the Investor, the composition of the Board shall be maintained at the existing number of six Directors and shall, subject to full compliance with the applicable laws and regulations and the articles of association of the Company, have three additional Directors as nominated by the Investor. Upon the request of the Investor, the Company shall take all necessary steps to appoint the additional Directors nominated by the Investor to the audit committee, remuneration committee and/or other committees from time to time established by the Board; and

(2) from the date of the Investment Agreement and until the expiry date of the six-month period after completion of the Investment Agreement, unless with the prior written consent of the Investor and save for transactions contemplated under the Investment Agreement, no member of the Group shall, directly or indirectly, place, arrange, issue, offer, lend, sell or otherwise enter into any agreement for the issuance, placing or sell or pledge or grant of any right or other means to transfer or dispose or repurchase any Shares (or any securities that may be convertible into such Shares) or enter into any transaction or memorandum or depositary arrangements with similar economic effects (which includes, without limitation, all derivative transactions).

Completion of the issue of the Subscription Shares

Completion of the allotment and issue of the Subscription Shares will take place on the fifth Business Day after the conditions precedent set forth in the Investment Agreement have been fulfilled (or waived as the case may be) or such other time and date as the Company and the Investor may agree in writing. The Company will issue an announcement upon completion of the Investment Agreement.

(B) 2010 CONVERTIBLE BONDS

PRINCIPAL TERMS OF THE 2010 CONVERTIBLE BONDS

Issuer:	The Company
Investor:	China Raybo International Corp., Ltd., a limited liability company established in the PRC. Additional information on the Investor is set forth in the paragraphs headed "Background Information and Intention of the Investor" in this letter. The Investor and its beneficial owner are independent of and not connected and not acting in concert with the Company, the Directors, chief executive or substantial shareholders of any member of the Group or any of their respective associates.

Principal amount:	An aggregate principal amount of US$64,102,564.0 (equivalent to approximately HK$500.0 million) (which, if the Conversion Rights are exercised in full at the Conversion Price, may result in the issue of 2,000,000,000 Conversion Shares). Such number of the Conversion Shares represent:- (1) approximately 26.3% of the existing number of Shares in issue; (2) approximately 11.4% of the enlarged number of Shares in issue following completion and allotment and issue of the Subscription Shares; and (3) approximately 10.2% of the enlarged number of Shares in issue following completion of the allotment and issue of the Subscription Shares and the full exercise of the Conversion Rights, and the impact on the shareholding structure of the Company is set forth in the paragraphs headed "Impact on the Shareholding Structure of the Company" in this letter.
Conversion Price:	The initial Conversion Price of HK$0.25 per Share represents: (i) a premium of approximately 204.9% to the closing price of HK$0.082 per Share as quoted on the Stock Exchange on the Latest Practicable Date; (ii) a premium of approximately 108.3% to the closing price of HK$0.12 per Share as quoted on the Stock Exchange on the Last Trading Day; (iii) a premium of approximately 208.6% to the average closing price of HK$0.081 per Share for the five consecutive trading days up to and including the Last Trading Day; and (iv) a premium of approximately 338.6% to the average closing price of HK$0.057 per Share for the ten consecutive trading days up to and including the Last Trading Day. The initial Conversion Price also represents approximately 75.5% discount to the net asset value per Share of approximately HK$1.02 which is based on the latest number of Shares in issue of 7,601,534,023 and the consolidated net asset value of the Group of approximately HK$7,772.2 million reported in the audited consolidated accounts of the Group as at 31 March 2010. The Conversion Price shall be subject to customary adjustments in certain events including share consolidation, share sub-division, capitalisation issue, capital distribution, rights issue and issue of other securities.

Maturity date:	The third anniversary of the Issue Date.
Interest rate:	Non interest bearing.
Status:	The 2010 Convertible Bonds constitute general, unsecured obligations of the Company and will rank pari passu with all other present and future unsecured and unsubordinated obligations of the Company except for the obligations accorded preference by mandatory provisions of the applicable laws and regulations. No application will be made for the listing of the 2010 Convertible Bonds in any jurisdiction (which includes, without limitation, the Stock Exchange).
Transferability:	The 2010 Convertible Bonds may be assigned or transferred to any party or parties, in whole or in part, without any restriction, by delivering the certificate(s) issued for the 2010 Convertible Bonds, together with the relevant instrument(s) of transfer, to the principal place of business of the Company. The Company shall, within five (5) Business Days from the date of receipt of the relevant transfer documents, issue to the transferee(s) or assignee(s) new certificates for the 2010 Convertible Bonds or any part thereof. If any part of the 2010 Convertible Bonds is transferred to any connected person (as such term is defined under the GEM Listing Rules) of the Company, the Company will inform the Stock Exchange as soon as practicable.
Conversion Rights:	The bondholder has the right to convert the 2010 Convertible Bonds in whole or in part of the principal amount of the 2010 Convertible Bonds at any time from the Issue Date before the date of maturity and from time to time in amounts of not less than US$0.2 million and in integral multiples of HK$1.0 million or equivalent on each conversion, save that if at any time, the principal outstanding amount of the 2010 Convertible Bonds is less than US$0.2 million, the whole (but not part only) of the principal amount of the 2010 Convertible Bonds may be converted. The bondholder shall not have the right to convert the whole or part of the principal amount of the 2010 Convertible Bonds into Shares to the extent that immediately after such conversion:- (a) there will not be sufficient public float of the Shares as required under the GEM Listing Rules; or (b) the bondholder whether alone or together with parties acting in concert with it would be obliged by reason of the resultant increase in the shareholding following such conversion to make a general offer under the Takeovers Code in force from time to time.

Ranking of the Conversion Shares:	The Conversion Shares shall rank pari passu in all respects with the Shares then in issue and shall be entitled to all dividends, bonuses and other distributions the record date of which falls on a date immediately after the date of the relevant conversion notice.
Redemption:	The Company shall not be entitled to redeem in whole or in part the outstanding principal amount of the 2010 Convertible Bonds until the date of maturity.
Events of default:	If any of the following events occurs, the Investor may give notice to the Company that the 2010 Convertible Bonds are, and they shall on the giving of such notice immediately become, due and payable at their principal amount and default interest calculated up to and including the date of repayment:-

(a) the Company defaults in any material respect in performance or observance or compliance with any of its other obligations set out in the instrument creating the 2010 Convertible Bonds which default is incapable of remedy or, if capable of remedy, is not in the absolute opinion of the Investor remedied within 14 days after notice of such default shall have been given to the Company by the Investor; or

(b) (i) any amount of principal repayment or interest repayment in relation to bank borrowings of any member of the Group are not paid within 30 days after the borrowings are due, or as the case may be, within any applicable grace period; or

(ii) any member of the Group fails to pay when due or expressed to be due any amounts in excess of US$2.0 million payable or expressed to be payable by it under any present or future guarantee for any moneys borrowed from or raised through a financial institution; or

(c) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed of the whole or any part of the undertaking, property, assets or revenues of any member of the Group (taken as a whole); or

(d) any material member of the Group becomes insolvent or is unable to pay its debts as they mature or applies for or consents to or suffers the appointment of any administrator, liquidator or receiver of any member of the Group or the whole or any part of the undertaking, property, assets or revenues of any member of the Group (taken as a whole) or takes any proceeding under any law for a readjustment or deferment of its obligations or any part of them or makes or enters into a general assignment or compromise with or for the benefit of its creditors; or

(e) an order is made or an effective resolution passed for winding-up of any member of the Group except in the case of winding-up of any subsidiary of the Company in the course of internal reorganization; or

(f) a moratorium is agreed or declared in respect of any indebtedness of any member of the Group or any governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or a substantial part of the assets the Company and its subsidiaries (taken as a whole); or

(g) listing of the Shares on GEM are being revoked or withdrawn or trading in the Shares on GEM is suspended for a continuous period of 20 Business Days unless such suspension is a result of the clearance of vetting by the Stock Exchange in respect of any notifiable transactions governed by the GEM Listing Rules.

CONDITIONS PRECEDENT TO COMPLETION OF THE INVESTMENT AGREEMENT

The conditions precedent to completion of the Investment Agreement are set forth below:-

(a) the termination of the Proposed Share Consolidation and the Proposed Open Offer;

(b) the passing of the required resolutions by the Independent Shareholders by way of a poll at the EGM approving (i) the Investment Agreement and the transactions contemplated thereunder; (ii) the Whitewash Waiver; (iii) the Special Deal (in relation to the Debt Restructuring Agreement); (iv) the grant of the Special Mandate and (v) the appointment of three persons nominated by the Investor as Directors in compliance with the requirements of the GEM Listing Rules;

(c) the passing of the required resolutions by the Shareholders by way of a poll at the EGM approving the increase in the authorised share capital of the Company;

(d) the Stock Exchange having granted the listing of, and permission to deal in, the Subscription Shares and the Conversion Shares that will be allotted and issued by the Company upon full exercise of the Conversion Rights and such approval not having been withdrawn on the date of completion of the Investment Agreement;

(e) the grant by the Executive of the Whitewash Waiver relating to the transactions contemplated under the Investment Agreement;

(f) the grant by the Executive his consent to the Special Deal relating to the Debt Restructuring Agreement;

(g) the Investor having completed satisfactory due diligence works on (among others, including) the assets, liabilities, operations, taxes, books of accounts and records and legal aspects of the Group;

(h) the Investor having obtained all the necessary internal, governmental and other regulatory approvals, consents and registration required for the completion of the Investment Agreement and the transactions contemplated thereunder, and such approvals, consents and registration shall be in full force and effect as of the date of completion of the transactions contemplated thereunder and shall include but not limited to, if necessary, (i) approval of the board of directors of the Investor, (ii) the project approval from the PRC National Development and Reform Commission; (iii) the approval of overseas investment from the Ministry of Commerce of the PRC and (iv) the foreign exchange registration of overseas investment with the state administrative authority for foreign exchange of the PRC;

(i) the Debt Restructuring Agreement having been entered into between the parties thereto and completion of all the transactions contemplated thereby, the contents of which shall be approved by the Investor in writing in advance;

(j) there not having been, at any time prior to completion date of the Investment Agreement:-

   (i) any adverse change in the business, assets, financial or operating conditions of the Group, which would be material to the Investment Agreement and the transactions contemplated thereunder in the reasonable opinion of the Investor;

   (ii) the occurrence of any investigation, litigation, arbitration, allegations or other legal proceedings in effect, pending or threatened against the Group before any court, tribunal, arbitration tribunal or governmental authority of competent jurisdiction, which would be material to the Investment Agreement and the transactions contemplated thereunder in the reasonable opinion of the Investor;

   (iii) the occurrence of any event or the existence of any circumstance which would render any of the warranties as set out in the Investment Agreement untrue or inaccurate in any material respect, which would likely involve an material adverse change in the assets, operating or financial conditions of the Group in the reasonable opinion of the Investor; and

   (iv) any proposed enactment, promulgation or enforcement by any authority of any ordinances, rules, orders, judgments, notices or awards, which prohibits, restricts or materially delay the completion of the Investment Agreement and the transactions contemplated thereunder;

(k) the Company having provided the Investor with legal opinions involving issues such as outstanding litigations and claims, corporate status, lawful existence and legality of asset ownership, environmental protection, labour issues, community issues, work permits and the exploration, production and sales permits for the mining and the related conditions, certificates or legal obstacles, if applicable, at the request of the Investor with the content thereof having satisfied the reasonable requirements of the Investor;

(l) the Investor having obtained a report in relation to certain mining areas in such form and substance (with all costs borne by the Company) satisfactory to the experts recognised by the Investor with respect to certain technical requirements. For the purpose of this condition (l), the mining area refers to the areas in aggregate of approximately 41,094 hectares covered by two offshore exploration permits granted in December 2009. Permit EP-VIII-OMR-11-2009 covers an area of approximately 15,781.611 hectares within the

Leyte Gulf region along the municipalities of Tanauan, Tolosa, Dulag, Mayorga, MacArthur and Abuyog in Leyte Province, the Philippines. Permit EP-VIII-OMR-12-2009 covers an area of approximately 25,312.2425 hectares within the Leyte Gulf region along the municipalities of Basey and Marabut in Samar Province and the city of Tacloban in Leyte Province, the Philippines;

(m) the signing of directors' service contracts (with such contents to the reasonable satisfaction of the Investor) for the appointment of the three representatives nominated by the Investor as additional Directors in compliance with the requirements under Rule 26.4 of the Takeovers Code and the GEM Listing Rules with effective date from the date of completion of the Investment Agreement; and

(n) the Investor having provided fund proof to the satisfaction of the Company.

The Investor can waive the conditions in (b)(v), (g), (i) to (m) above and the Company can waive the condition in (n) above. The conditions in (a), (b)(i) to (iv), (c), (d), (e), (f) and (h) cannot be waived. Other than the condition in (a) above, none of the above conditions have been fulfilled or waived as at the date of this circular.

If any of the above conditions precedent (other than completion of the transaction contemplated under the Debt Restructuring Agreement which shall take place concurrently with completion of the Investment Agreement) have not been satisfied or (i) as to the those conditions under (b)(v), (g), (i) to (m) above waived by the Investor or (ii) as to the condition under (n) above waived by the Company on or before the Long Stop Date, the Investment Agreement will lapse and the parties thereto will be released from all obligations under the Investment Agreement, save for liabilities for any antecedent breaches of the relevant terms set forth in the Investment Agreement.

FORCE MAJEURE EVENTS UNDER THE INVESTMENT AGREEMENT

A party to the Investment Agreement shall not be held liable for a failure in performing its obligations if there is any force majeure event affecting the ability to perform any of its obligations under the Investment Agreement or actually preventing the performance thereof as expected, provided that the party resorting to the force majeure could not reasonably have avoided or overcome the impediment or at least its effects. Examples of force majeure are natural phenomena, including without limitation earthquake, epidemics, serious fire, flood, typhoon, emergencies in the sea, as well as war, explosions, terrorism and other circumstances actually preventing either party from implementing its obligations under the Investment Agreement.

Upon the occurrence of a force majeure event, the parties shall negotiate in good faith for equitable solutions to minimize the consequences of the force majeure event.

PROPOSED USE OF THE NET PROCEEDS FROM THE SUBSCRIPTION SHARES AND THE 2010 CONVERTIBLE BONDS

Assuming that the allotment and issue of the Subscription Shares and the issue of the 2010 Convertible Bonds are duly completed, the Company will receive gross proceeds of HK$3,000.0 million and net proceeds, after deduction of the professional and related expenses, of approximately HK$2,970.0 million. The Company will use HK$1,769.5 million for full repayment of the Kesterion Existing Debts under the Debt Restructuring Agreement, approximately HK$900.0 million as the initial start-up funding of the mining operations in the Philippines and approximately HK$300.5 million as general working capital of the Group.

(C) DEBT RESTRUCTURING AGREEMENT

PRINCIPAL TERMS OF THE DEBT RESTRUCTURING AGREEMENT

Date:	14 May 2010
Parties:	The Company Black Sand Kesterion
Principal terms:	The Company and Black Sand shall repay the Kesterion Existing Debts in the aggregate amount of HK$1,769.5 million in full by way of cash received from the net proceeds following completion of the Investment Agreement. Completion of the Debt Restructuring Agreement is required to take place concurrently with completion of the Investment Agreement. Pending completion of the Debt Restructuring Agreement, Kesterion has agreed that it will not exercise or enforce any of its rights or remedies or take or commence any legal proceedings or accelerate or demand repayment of any principal or exercise any right of set-off or otherwise reduce the amount of the Kesterion Existing Debts. In addition, if any of such action or step has been taken, Kesterion has agreed that it will immediately withdraw such action and undertake no such further action will be taken.
Conditions:	The Debt Restructuring Agreement is conditional upon:- (a) the approval by the Independent Shareholders of the Debt Restructuring Agreement; (b) the Company receiving a copy of the board resolutions of Kesterion approving the entering into the Debt Restructuring Agreement; and (c) all the conditions precedent set forth in the Investment Agreement being satisfied and/or waived in accordance with the provisions therein contained.

REASONS FOR ENTERING INTO THE INVESTMENT AGREEMENT AND THE DEBT RESTRUCTURING AGREEMENT

The Group is principally engaged in exploration and exploitation of mining resources.

The aggregate consideration payable by the Investor for the Subscription Shares is HK$2,500.0 million. The Subscription Price of HK$0.25 for each new Share represents approximately 108.3% over the closing price of HK$0.12 for each Share as quoted on the Stock Exchange on the Last Trading Day. The Subscription Price also represents approximately 208.6% over the average closing price of HK$0.081 for each Share as quoted on the Stock Exchange for the last five Business Days up to and including the Last Trading Day.

The aggregate consideration payable by the Investor for the 2010 Convertible Bonds is US$64,102,564.0 (equivalent to approximately HK$500.0 million). The Conversion Price is equal to the Subscription Price.

Hence, upon completion of the allotment and issue of the Subscription Shares and the Conversion Shares, the Group will receive gross proceeds of HK$3,000.0 million and net proceeds, after deduction of the professional and related expenses, of approximately HK$2,970.0 million. Excluding the cash to be used for the repayment of the Kesterion Existing Debts in full, the Group is expected to have upfront cash of approximately HK$1,200.5 million, approximately HK$900.0 million of which will be used as the initial start-up funding for the large scale mining project of the Group in the Philippines and approximately HK$300.5 million will be used as the general working capital of the Group.

According to the terms of the 2008 Kesterion Convertible Bonds, Kesterion may give notice to the Company that the principal amount of the 2008 Kesterion Convertible Bonds will become due and immediately repayable if, amongst other things, the Company or any of its material subsidiaries becomes insolvent or is unable to pay its debts as they mature. Kesterion has notified the Company that if the Company proceeds with the Investment Agreement without full repayment of the Kesterion Existing Debts, Kesterion may request for immediate repayment of the Kesterion Existing Short-term Loans. In such event and on the basis the Company is not able to repay the Kesterion Existing Short-term Loans in full, it will cause a cross-default in the 2008 Kesterion Convertible Bonds and the full repayment obligation of the Company under the 2008 Kesterion Convertible Bonds will be triggered. Furthermore, without new financing and unless Kesterion agrees to an extension, it is expected that the Company may not be able to repay the indebtedness of HK$190.0 million due to Kesterion under the Kesterion Existing Promissory Notes due in June 2010. Failure to pay the Kesterion Existing Promissory Notes is an event of default, and will trigger cross default as well. Accordingly, the full amount of the Kesterion Existing Debts could potentially be due following such default. In the circumstances, the Directors (excluding the independent non-executive Directors whose view is reserved pending the advice of the Independent Financial Adviser(s)) consider that the Debt Restructuring Agreement, which involves the suspension by Kesterion to exercise its rights in respect of the Kesterion Existing Debts pending completion of the Investment Agreement and the full payment of the Kesterion Existing Debts, is in the interests of the Company and the Shareholders as a whole.

Completion of the Investment Agreement will also facilitate realization of the under valued full potential of the Group's mining projects in the Philippines. The Directors believe that the Investor will bring strategic value and relationships with other reputable PRC companies which may work together to develop the mining project of the Group. The Directors further believe that the Group could also potentially benefit from a strategic investor with strong financial resources such as the Investor in the long term.

In this regard, the Directors (including the independent non-executive Directors but excluding Mr. Wong Chung Yu Denny and Mr. Yin Mark Teh-min) consider that the transactions contemplated under the Investment Agreement and the Debt Restructuring Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

2. FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

The Company has not engaged in any fund raising activities during the twelve months immediately preceding the date of the Announcement.

3. IMPACT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following tables illustrate the shareholding structure of the Company following completion of the allotment and issue of the Subscription Shares and upon the full conversion of the 2010 Convertible Bonds:-

Shareholders	**As of the Latest Practicable Date**		**Immediately after completion of the allotment and issue of the Subscription Shares**		**Immediately after completion of the allotment and issue of the Subscription Shares and full exercise of the Conversion Rights**	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
Kesterion	1,020,250,000	13.42	1,020,250,000	5.80	1,020,250,000	5.20
Ms. Eva WONG	2,260,000	0.03	2,260,000	0.01	2,260,000	0.01
Mr. YIN Mark Teh-min	2,880,000	0.04	2,880,000	0.02	2,880,000	0.02
Kesterion Group	1,025,390,000	13.49	1,025,390,000	5.83	1,025,390,000	5.23
Investor, its ultimate beneficial owners and parties acting in concert with any of them	—	—	10,000,000,000	56.81	12,000,000,000	61.22
Independent Shareholders	6,576,144,023	86.51	6,576,144,023	37.36	6,576,144,023	33.55
Total	**7,601,534,023**	**100.00**	**17,601,534,023**	**100.00**	**19,601,534,023**	**100.00**

4. SPECIAL MANDATE

The Board was granted the Existing General Mandate at the Company's annual general meeting held on 22 July 2009 to allot, issue and otherwise deal in up to 908,706,804 Shares, representing 20% of the share capital of the Company in issue on the date of that annual general meeting. The Existing General Mandate has not been fully utilized as of the date of this circular. As the EGM will be convened for the purpose of approving the transactions set forth in this circular, the Subscription Shares and the Conversion Shares will not be issued under the Existing General Mandate, but the Company will seek the grant of the Special Mandate to allot and issue such new Shares.

5. APPLICATION FOR THE LISTING

No application will be made for the listing of, or permission to deal in, the 2010 Convertible Bonds on the Stock Exchange or any other stock exchange. The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares and the Conversion Shares.

6. IMPLICATIONS UNDER THE TAKEOVERS CODE AND LISTING RULES

Whitewash Waiver

Following the allotment and issue of the Subscription Shares and assuming that the Conversion Rights are not exercised, the Investor, its ultimate beneficial owners and parties acting in concert with any of them will be interested in 10,000,000,000 Shares, representing approximately 56.8% of the number of Shares in issue as enlarged by the Subscription Shares.

As such, the Investor, its ultimate beneficial owners and parties acting in concert with any of them will be obliged to make a mandatory general offer pursuant to Rule 26 of the Takeovers Code. The Investor has made an application to SFC for the Whitewash Waiver, which if granted, will be subject to, among other things, approval by the Independent Shareholders in respect of the Whitewash Waiver at the EGM by way of a poll.

In the event that the Investor exercises all the Conversion Rights, a further 2,000,000,000 Conversion Shares will be issued to the Investor or its nominees. Such shareholding percentage will increase to approximately 61.2%.

Upon completion of the Investment Agreement, the Investor will hold more than 50% of the then issued share capital of the Company in which case, the Investor may acquire further voting rights in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

As at the Latest Practicable Date, the Investor, its ultimate beneficial owners and parties acting in concert with any of them did not hold any Shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of securities in the Company. Save for entering into the Investment Agreement, the Investor, its ultimate beneficial owners and parties acting in concert with any of them have not acquired any voting rights of the Company or dealt in any relevant securities of the Company in the six months prior to the date of the Announcement and have not dealt in any relevant securities of the Company from the date of the Announcement up to the Latest Practicable Date.

An application has been made by the Investor to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that the Whitewash Waiver will be granted and will be conditional upon, among other things, the approval of the Independent Shareholders at the EGM by way of poll, in which Shareholders who are involved in, or interested in, the Whitewash Waiver (including the Kesterion Group) will abstain from voting on the resolution for the Whitewash Waiver.

It is a condition precedent to the completion of the Investment Agreement that the Whitewash Waiver be granted by the Executive and approved by the Independent Shareholders by way of poll at the EGM. Thus, if the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the transactions under the Investment Agreement may not proceed.

Special Deal

The repayment of the Kesterion Existing Debts by way of cash under the Debt Restructuring Agreement constitutes a special deal under the Takeovers Code. The Company will seek the approval of the Independent Shareholders at the EGM by way of a poll to approve the Special Deal. An application for consent to the Special Deal pursuant to Note 5 to Rule 25 of the Takeovers Code has been made to the Executive. The Executive has indicated that the consent will be granted and that such consent will be subject to the approval by the Independent Shareholders by way of a poll at the EGM.

The Joint Independent Financial Advisers have stated in their letter to the Independent Shareholders and the Independent Board Committee that the terms of the Special Deal are fair and reasonable and that the Special Deal is an arm's length transaction on normal commercial terms.

Connected Transactions

Under the GEM Listing Rules, Kesterion, being a substantial shareholder of the Company, is a connected person of the Company. Accordingly, the transactions between the Company and Kesterion pursuant to the Debt Restructuring Agreement constitute a connected transaction of the Company under Chapter 20 of the GEM Listing Rules and are subject to the approval of the Independent Shareholders at the EGM by way of poll.

7. INVESTOR'S DEALING AND INTEREST IN THE COMPANY'S SECURITIES

Save for the entering into of the Investment Agreement, none of the Investor, its directors, ultimate beneficial owner and parties acting in concert with any of them has dealt in the Shares, outstanding options, derivatives, warrants or other securities convertible or exchangeable into the Shares during the period commencing on the date falling six months prior to the date of the

Announcement and up to the Latest Practicable Date. As at the Latest Practicable Date, neither the Investor, its directors, ultimate beneficial owner nor the parties acting in concert with any of them (including the directors of the Investor) held any Shares, warrants, options or convertible securities of the Company or any derivatives in respect of the securities of the Company.

There is no arrangement (whether by way of option, indemnity or otherwise) in relation to shares of the Investor or the Company and which might be material to the transactions under the Investment Agreement which is subject to the Whitewash Waiver and neither the Investor, its ultimate beneficial owners and parties acting in concert with any of them has borrowed or lent any of the relevant securities in the Company.

8. INCREASE IN THE AUTHORISED SHARE CAPITAL OF THE COMPANY

For the purpose of facilitating the allotment and issue of the Subscription Shares and the Conversion Shares, the Directors propose to increase the authorised share capital of the Company to HK$300.0 million divided into 30,000,000,000 Shares of HK$0.01 each. Related resolutions will be tabled at the EGM for consideration and if thought fit, approval by the Shareholders by way of a poll. The increase in authorized share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders by way of poll at the EGM but is not conditional upon the approval of the Shareholders with respect to the transactions contemplated under the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal or the completion of such transactions.

9. CHANGE IN THE COMPOSITION OF THE BOARD

As at the Latest Practicable Date, the Board comprises two executive Directors, one non-executive Director and three independent non-executive Directors. Upon completion of the Investment Agreement, the Investor shall be entitled to nominate three persons to be appointed as additional Directors. The proposed appointment of the new Directors will be subject to the approval of the Independent Shareholders by way of ordinary resolutions at the EGM in which the voting will be taken by way of poll. The Company will issue an announcement as required under Rule 17.50(2) of the GEM Listing Rules as soon as practicable when the appointment of the new Directors is approved at the EGM.

The biographies of the persons nominated by the Investor are set out below:

Mr. Suo Chun Sheng, age 40, is the Chairman of the Investor, China Raybo International Corp. Ltd, and a director of Beijing Jie Neng San You Investment Co. Ltd.. He is a merchant.

Mr. Suo did not hold any directorship in any other listed public companies in the latest three years. He does not have any relationship with any Directors, senior management or substantial shareholders of the Company. He does not have any interests in the Shares within the meaning of Part XV of the SFO. Mr. Suo will enter into a service contract with the Company to fix the term of his office and his remuneration upon the completion of the Investment Agreement and a further announcement will be made in accordance with the GEM Listing Rules. The salary under the service contract will be determined by the Board having regard to the Director's responsibilities and duties and will be subject to a cap of HK$960,000 per year. Mr. Suo will be entitled to receive an annual bonus of a sum to be determined by the Board at its absolute discretion having regard to the operating results of the Company and its subsidiaries and his individual performance.

Save as disclosed above, Mr. Suo has confirmed that there are no other matters concerning his appointment that need to be brought to the attention of the shareholders of the Company nor any information to be disclosed pursuant to the requirements of Rule 17.50(2) of the GEM Listing Rules.

Ms Xu Saihua, Emma, age 36, is the Vice President of the Investor, China Raybo International Corp. Ltd. She holds a Bachelor degree in International Economic Law from Fudan University and a Master of Business Administration degree from Washington University in Saint Louis, the United States. Ms Xu is a qualified PRC lawyer, specialising in foreign investments and corporate practice. She was a member of the Ningbo Beilun Committee of Chinese People's Political Consultative Conference of the PRC and an adviser to the People's Government of Longyan City, Fujian Province.

Before joining the Investor, Ms. Xu was a member of the senior management of Gale Pacific Limited, an Australian company with textiles business in the PRC, and its Sino-foreign joint ventures in the PRC, and taking up positions of China Business Controller, In-house Legal Counsel and General Manager.

Ms. Xu did not hold any directorship in any other listed public companies in the latest three years. She does not have any relationship with any Directors, senior management or substantial shareholders of the Company. She does not have any interests in the Shares within the meaning of Part XV of the SFO. Ms Xu will enter into a service contract with the Company to fix the term of her office and her remuneration upon the completion of the Investment Agreement and a further announcement will be made in accordance with the GEM Listing Rules. The salary under the service contract will be determined by the Board having regard to the Director's responsibilities and duties and will be subject to a cap of HK$960,000 per year. Ms. Xu will be entitled to receive an annual bonus of a sum to be determined by the Board at its absolute discretion having regard to the operating results of the Company and its subsidiaries and her individual performance.

Save as disclosed above, Ms Xu has confirmed that there are no other matters concerning her appointment that need to be brought to the attention of the shareholders of the Company nor any information to be disclosed pursuant to the requirements of Rule 17.50(2) of the GEM Listing Rules.

Mr. An Tung, age 52, is a member of the senior management of Beijing Zhonglian Weiye Technology & Cultural Development Centre (北京中聯偉業科技文化發展中心).

Mr. An did not hold any directorship in any other listed public companies in the latest three years. He does not have any relationship with any Directors, senior management or substantial shareholders of the Company. He does not have any interests in the Shares within the meaning of Part XV of the SFO. Mr. An will enter into a service contract with the Company to fix the term of his office and his remuneration upon the completion of the Investment Agreement and a further announcement will be made in accordance with the GEM Listing Rules. The salary under the service contract will be determined by the Board having regard to the Director's responsibilities and duties and will be subject to a cap of HK$960,000 per year. Mr. An will be entitled to receive an annual bonus of a sum to be determined by the Board at its absolute discretion having regard to the operating results of the Company and its subsidiaries and his individual performance.

Save as disclosed above, Mr. An has confirmed that there are no other matters concerning his appointment that need to be brought to the attention of the shareholders of the Company nor any information to be disclosed pursuant to the requirements of Rule 17.50(2) of the GEM Listing Rules.

10. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee has been formed to make recommendations to the Independent Shareholders in respect of voting on the resolutions to approve the transactions contemplated under the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal by way of a poll at the EGM. Your attention is drawn to the letter from the Independent Board Committee set out on pages 27 to 28 of this circular.

Nuada and Donvex Capital have been appointed to advise (i) the Independent Board Committee and the Independent Shareholders as to whether the terms and conditions of the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the above. Your attention is drawn to their letter of advice set out on pages 29 to 40 of this circular.

11. BUSINESS OF THE GROUP AND KESTERION

The Group is principally engaged in exploration and exploitation of mineral resources.

Kesterion is principally engaged in investment holding.

12. BACKGROUND INFORMATION AND INTENTION OF THE INVESTOR

The Investor, China Raybo International Corp. Ltd., is a limited liability company established in the PRC on 1 March 1985. The Investor was authorised by the Ministry of Foreign Affairs of the PRC to deal with international affairs independently and is owned as to 92.1% by a private enterprise in the PRC, namely Beijing Jie Neng San You Investment Co. Ltd (北京杰能三酉投資有限公司) and as to 7.9% by a State-owned enterprise in the PRC, namely China Nuclear Engineering Construction Group Corporation (中國核工業建設集團公司), both are Independent Third Parties but for the Investment Agreement and the transactions contemplated thereunder. The ultimate beneficial owners of Beijing Jie Neng San You Investment Co. Ltd. are four PRC individuals, namely, Mr. SUO Chun Sheng (索春生), Mr. SUO Chun Wang (索春旺), Mr. YANG Long Sen (楊隆森) and Mr. ZHANG Li (張栗), holding 78%, 2%, 10% and 10%, respectively, in the equity interest thereof and each of them being an Independent Third Party. The ultimate beneficial owner of China Nuclear Engineering Construction Group Corporation is the State Council of the PRC.

The Investor is principally engaged in the production and exploration of mining resources since 1992. At present, it has coal mining interest in Australia, as well as iron, copper and coal mining and exploration interest in Outer Mongolia. In addition, the Investor is also engaged in activities related to resources trading and mining equipment procurement.

As at the Latest Practicable Date, neither the Company nor any of the Directors, held any shares or other securities of the Investor nor have they dealt for value in the shares or other relevant securities of the Investor in the six month period immediately prior to the date of the Announcement and up to the Latest Practicable Date. Furthermore, the Investor is an Independent Third Party of the Company and, other than the Investment Agreement and the transactions contemplated thereunder, no agreement, arrangement or understanding (including any compensation arrangements) exists between the Investor or any person acting in concert with it and any of the Directors, recent directors, Shareholders or recent shareholders of the Company.

The Investor does not have any plan to change the Group's existing business activities. However, it is the intention of the Investor that, following completion of the Investment Agreement, it may initiate reviews on the business activities and assets of the Group, for the purpose of formulating new business plans and strategies for the future business development of the Group. Subject to the results of such reviews, the Investor does not have any plans to discontinue or change the Group's existing business activities, the employment of the employees, management and the senior management of the Group or redeploy any fixed assets of the Company.

The Company and the Investor confirm, as regards each of them respectively, that:-

(a) it has no agreement, arrangement, understanding, intention or negotiation (concluded or otherwise) about any disposal, termination or scaling-down of the mining business; and

(b) it has no agreement, arrangement, understanding, intention or negotiation (concluded or otherwise) about any acquisition of assets or business.

The Company and the Investor further confirm that there is no and will not be any agreement, arrangement, understanding or negotiation (concluded or otherwise) as to (a) whether any Director nominated by the Investor will become the Chairman of the Board; or (b) the resignation of the existing Directors after completion of the Investment Agreement and the Debt Restructuring Agreement.

13. EGM

A notice of the EGM to be held at Board Room, 1st Floor, South Pacific Hotel, 23 Morrison Hill Road, Wanchai, Hong Kong on Tuesday, 10 August 2010 at 11:30 a.m. is set out on pages N-1 to N-5 of this circular at which ordinary resolutions will be proposed to consider, and, if thought fit, by the Shareholders or the Independent Shareholders (as the case may be) to approve the resolutions contemplated under the transactions in the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver, the Special Deal, the increase in authorised share capital of the Company and the appointment of new Directors.

Please refer to the section headed "General — Abstention from voting" below for information on the parties required to abstain from voting on the relevant resolutions.

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

In accordance with the GEM Listing Rules, the vote to be taken at the EGM shall be conducted by poll.

14. GENERAL

Abstention from voting

In accordance with the GEM Listing Rules and the Takeovers Code, members of the Kesterion Group, shall abstain from voting in favour of the ordinary resolutions in respect of the transactions contemplated under the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver, the Special Deal, the Special Mandate and the appointment of the new Directors at the EGM.

As at the Latest Practicable Date, members of the Kesterion Group was interested in an aggregate of 1,025,390,000 Shares and who together held approximately 13.49% of the existing issued share capital of the Company.

None of the Shareholders of the Company is required to abstain from voting on the ordinary resolution in relation to the increase in authorized share capital of the Company.

Recommendation

The Independent Board Committee, having considered the terms of the transactions contemplated under the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal, as well as the advice and recommendations of Nuada and Donvex Capital set out in the section headed "Letter from the Joint Independent Financial Advisers" of this letter, consider that the terms of the transactions contemplated under the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Independent Board Committee recommends that the Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the EGM to approve, among other things, the transactions contemplated under the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal. The "Letter from the Independent Board Committee" is set out on pages 27 to 28 of this circular and the "Letter from the Joint Independent Financial Advisers" is set out on pages 29 to 40 of this circular.

On the basis of the information set out in this circular, the Directors (including the members of the Independent Board Committee) believe that the resolutions for the transactions contemplated under the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver, the Special Deal, the appointment of new Directors and the increase in authorised share capital of the Company are fair and reasonable and in the interests of the Company and the Shareholders as a whole and therefore recommend the Independent Shareholders and the Shareholders (as the case may be) to vote in favour of the relevant resolutions as set out in the notice of EGM at the end of this circular.

15. ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Pan Asia Mining Limited
Mr. Wong Chung Yu Denny
Chairman

PAN ASIA MINING LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8173)

To the Independent Shareholders

Dear Sir or Madam,

ISSUE OF THE SUBSCRIPTION SHARES AND THE 2010 CONVERTIBLE BONDS
DEBT RESTRUCTURING AGREEMENT INVOLVING CONNECTED TRANSACTION
APPLICATION FOR THE WHITEWASH WAIVER AND CONSENT TO THE SPECIAL DEAL

We refer to the letter from the Board set out in the circular dated 20 July 2010 (the "**Circular**") of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular, unless the otherwise defined herein.

We have been appointed to constitute the Independent Board Committee to consider the relevant resolutions under the transactions under the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal and to advise the Independent Shareholders as to whether the terms of the transactions under the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to recommend whether the Independent Shareholders should vote in favour of the resolutions to be proposed at the EGM to approve the transactions under the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal.

Nuada Limited and Donvex Capital Limited have been appointed as the joint independent financial advisers to advise us and the Independent Shareholders regarding the relevant resolutions under the transactions under the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal. Details of its recommendation and principles taken into consideration in arriving as its recommendation are set out in the letter from Nuada Limited and Donvex Capital Limited on pages 29 to 40 of the Circular.

Having taken into account the principal factors and reasons considered by, and the opinion of Donvex Capital Limited and Nuada Limited, we consider that the terms of the transactions under the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the relevant resolutions under the transactions under the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal.

Yours faithfully,
For and on behalf of the
Independent Board Committee
of
Pan Asia Mining Limited

Mr. Lai Kai Jin, Michael	**Mr. Chan Siu Wing, Raymond**	**Mr. Chu Hung Lin, Victor**
Independent non-executive director	*Independent non-executive director*	*Independent non-executive director*

The following is the full text of the letter from Donvex Capital Limited and Nuada Limited setting out their advice to the Independent Board Committee and the Independent Shareholders in connection with (i) the Investment Agreement, the Debt Restructuring Agreement and transactions contemplated thereunder; and (2) the Whitewash Waiver and the Special Deal, which has been prepared for the purpose of incorporation in this circular.

Nuada Limited
Corporate Finance Advisory

17th Floor, BLINK,
111 Bonham Strand
Sheung Wan
Hong Kong

Donvex 富域資本
Donvex Capital Limited
富域資本有限公司

Unit1305, 13th Floor,
Carpo Commercial Building
18-20 Lyndhurst Terrace
Central
Hong Kong

20 July 2010

To the Independent Board Committee and the Independent Shareholders
Pan Asia Mining Limited

Dear Sirs,

ISSUE OF THE SUBSCRIPTION SHARES
AND THE 2010 CONVERTIBLE BONDS
DEBT RESTRUCTURING AGREEMENT
INVOLVING CONNECTED TRANSACTION
APPLICATION FOR THE WHITEWASH WAIVER AND
CONSENT TO THE SPECIAL DEAL

INTRODUCTION

We refer to our engagement as the joint independent financial advisers to advise the Independent Board Committee and the Independent Shareholders with respect to the Investment Agreement, Debt Restructuring Agreement and transactions contemplated thereunder, the Whitewash Waiver and the Special Deal, details of which are set out in the letter from the Board contained in the circular dated 20 July 2010 to the Shareholders (the "Circular"), of which this letter forms part. Terms used in this letter have the same meaning as defined elsewhere in the Circular unless the context requires otherwise.

Investment Agreement

On 9 April 2010, the Company entered into the Investment Agreement with the Investor, as amended and supplemented by a supplemental agreement thereof dated 14 May 2010, whereby the Investor agreed, subject to certain conditions precedent to be satisfied, to subscribe for the Subscription Shares and the 2010 Convertible Bonds.

Debt Restructuring under the Debt Restructuring Agreement

The Company entered into the Debt Restructuring Agreement with Black Sand and Kesterion on 14 May 2010 to restructure the Kesterion Existing Debts and pursuant to which, the Company will repay the Kesterion Existing Debts in full by way of cash received from the net proceeds following completion of the Investment Agreement.

Application of the proceeds from Investment Agreement

Assuming that the issue of Subscription Shares and the issue of the 2010 Convertible Bonds are duly completed, the Company will receive gross proceeds of HK$3 billion and net proceeds, after deduction of the professional and related expenses of approximately HK$2.97 billion. The Company will use approximately HK$1.77 billion for full repayment of the Kesterion Existing Debts under the Debt Restructuring Agreement and approximately HK$1.20 billion as the initial start-up funding of the mining operations in the Philippines and as general working capital of the Group.

Application for the Whitewash Waiver

Following the allotment and issue of the Subscription Shares, the Investor, its ultimate beneficial owners and parties acting in concert with any of them will be interested in 10,000,000,000 Shares, representing approximately 56.8% of the number of Shares in issue as enlarged by the Subscription Shares. As such, the Investor, its ultimate beneficial owners and parties acting in concert with any of them will be obliged to make a mandatory general offer pursuant to Rule 26 of the Takeovers Code. The Investor has made an application to the SFC for the Whitewash Waiver, which if granted, will be subject to, among other things, approval by the Independent Shareholders in respect of the Whitewash Waiver at the EGM by way of poll.

Connected Transaction

Ms. Eva Wong, the beneficial owner of Kesterion, is the sister of Mr. Wong Chung Yu, Denny, the Chairman of the Group. Kesterion is a substantial shareholder (as defined in the GEM Listing Rules) of the Company and is therefore a connected person (as defined in the GEM Listing Rules) of the Company. Hence, the Debt Restructuring Agreement and the transactions contemplated thereunder will constitute connected transactions for the Company under the GEM Listing Rules and are subject to Independent Shareholders' approval. Moreover, as Kesterion is a party to the Debt Restructuring Agreement, completion of which is required to take place concurrently with completion of the Investment Agreement, Kesterion is not considered independent for the purposes of the resolutions to approve the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal. Kesterion Group will abstain from voting in respect of the resolutions to approve the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal at the EGM.

Consent to the Special Deal

The repayment of the Kesterion Existing Debts by way of cash under the Debt Restructuring Agreement constitutes a special deal under the Takeovers Code. An application has been made to the SFC for a consent to the Special Deal, which if granted, will be subject to, among other things, approval by the Independent Shareholders in respect of the Whitewash Waiver at the EGM by way of poll. The Company will seek the approval of the Independent Shareholders at the EGM by way of a poll to approve the Special Deal.

The Independent Board Committee, comprising all the independent non-executive Directors, Mr. LAI Kai Jin, Michael, Mr. CHAN Siu Wing, Raymond and Mr. CHU Hung Lin, Victor has been established to advise the Independent Shareholders in relation to the above transactions. We, Nuada Limited and Donvex Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in connection with the above transactions, in particular as to (i) whether the terms of the Investment Agreement, the Debt Restructuring Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Special Deal are fair and reasonable; (ii) whether the Investment Agreement, the Debt Restructuring Agreement and the transactions contemplated thereunder, the Whitewash Waiver and the Special Deal are in the interests of the Company and the Independent Shareholders as a whole; (iii) whether the Connected Transaction is on normal commercial terms and in ordinary and usual course of business of the Company; and (iv) how the Independent Shareholders should vote in respect of the relevant resolutions to approve the Investment Agreement, the Debt Restructuring Agreement and the transactions contemplated thereunder, the Whitewash Waiver the Special Deal at the EGM.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have relied on the information and representations supplied, and the opinion expressed, by the Directors and management of the Company and have assumed that such information and statements, and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the date hereof and that they may be relied upon in formulating our opinion. The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no material facts not contained in the Circular the omission of which would make any statement in the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Investment Agreement, the Debt Restructuring Agreement and transactions contemplated thereunder, the Whitewash Waiver, the Special Deal and the Connected Transaction. Save for the inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

INVESTMENT AGREEMENT AND THE DEBT RESTRUCTURING

Principal factors and reasons

In arriving at our opinion regarding the Investment Agreement, the Debt Restructuring Agreement and transactions contemplated thereunder, we have considered the following principal factors and reasons:

(i) **Background and Reasons for entering into the Investment Agreement**

The principal activity of the Company is mining exploration and exploitation.

Set out below is a chart illustrating the financial summary of the Group for the years ended 31 March 2009 and 31 March 2010:

	Year ended for	
	31 March 2010	**31 March 2009**
	(Audited)	*(Audited)*
	HK$'000	*HK$'000*
Turnover (Continuing Operations)	14,730	4,287
Gross profit (Continuing Operations)	139	(35)
Loss for the year	264,164	162,918

We noted that the Group had recorded losses for the two years ended 31 March 2009 and 2010. In view of the above condition, the Group requires additional funding for the following reasons:

(a) the initial start up cost for its large scale mining project in Philippines and its general working capital;

(b) according to the terms of the 2008 Kesterion Convertible Bonds, Kesterion may give notice to the Company that the principal amount of the 2008 Kesterion Convertible Bonds will become due and immediately repayable if, amongst other things, the Company or any of its material subsidiaries becomes insolvent or is unable to pay its debts as they mature. Kesterion has notified the Company that if the Company proceeds with the Investment Agreement without full payment of the Kesterion Existing Debts, Kesterion may request for immediate repayment of the Kesterion Existing Short-terms Loans. Should the Company not able to repay the Kesterion Existing Short-term Loans in full upon the request of Kesterion, it will cause a cross default in the 2008 Kesterion Convertible Bonds and the full repayment obligation of the Company under the 2008 Kesterion Convertible Bonds will be triggered; and

(c) without new financing and unless Kesterion agrees to an extension, it is expected that the Company may not be able to repay the indebtedness of HK$190 million due to Kesterion under the Kesterion Existing Promissory Notes is an event of default, and will trigger cross default. As such, the full amount of the Kesterion Existing Debts could potentially be due following such default.

Assuming that the allotment and the issue of the Subscription Shares and the issue of the 2010 Convertible Bonds are duly completed, the Company will receive gross proceeds of HK$3 billion and net proceeds of approximately HK$2.97 billion after deduction of the professional and related expenses. The consideration from the Investor for the 2010 Convertible Bond and the issue of Subscription Shares will be used as the initial start up funding for the large scale mining project of the Group and its general working capital and for the repayment of the Kesterion Existing Debts in full.

Under such circumstances, we are of the view that the completion of the Investment Agreement would provide additional funding to the Company to repay the Kesterion Existing Debts and is in the interests of the Company and the Shareholders as a whole. Completion of the Investment Agreement would also provide strong financial resources for the Company to fund the start up costs of the mining project of the Group in Philippines.

(ii) **Subscription Price under the Investment Agreement**

The aggregate consideration payable by the Investor for the Subscription Shares is HK$2.5 billion. The Subscription Price of HK$0.25 for each new Share represents:

(a) a premium of approximately 204.9% to the closing price of HK$0.082 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) a premium of approximately 108.3% to the closing price of HK$0.12 per Share as quoted on the Stock Exchange on 1 April 2010, which is the last Business Day immediately preceding the suspension of trading in the Shares;

(c) a premium of approximately 208.6% to the average of the closing price of HK$0.081 per Share as quoted on the Stock Exchange for the last five full trading days up to and including 1 April 2010;

(d) a premium of approximately 338.6% to the average of the closing price of HK$0.057 per Share as quoted on the Stock Exchange for the last ten full trading days up to and including 1 April 2010; and

(e) a discount of approximately 75.5% over the audited net asset value of the Company of HK$1.02 per Share as at 31 March 2010.

As the Subscription Price is a premium of approximately 108.3% to the closing price of HK$0.12 per Share as quoted on the Stock Exchange on 1 April 2010, which is the last Business Day immediately preceding the suspension of trading in the Shares, we are of the view that the Subscription Price is fair and reasonable so far as the Company and Independent Shareholders are concerned.

In respect of the Subscription Price which is the discount of approximately 75.5% over the audited net asset value of the Company of HK$1.02 per Share as at 31 March 2010, we are of the view that such discount over the adjusted net asset value of the Company should not be used as the benchmark for the evaluation of the fair and reasonableness of the Subscription Price due to the following reasons:

(a) The Company is not an asset based entity. The net asset of the Company does not have any material asset save for the exploration and evaluation asset of HK$8,435.7 million, which is two exploration permits in respect of the rights to conduct mining operations in the specified mining area in Philippines for a term not exceeding 25 years from the execution date and renewable for another term of not exceeding 25 years; and

(b) For the year ended 31 March 2010, these two exploration permits do not contribute any revenue to the Company.

(iii) **The Conversion Price of the 2010 Convertible Bond under the Investment Agreement**

The Conversion Price represents:

(a) a premium of approximately 204.9% to the closing price of HK$0.082 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) a premium of approximately 108.3% to the closing price of HK$0.12 per Share as quoted on the Stock Exchange on 1 April 2010;

(c) a premium of approximately 208.6% to the average of the closing price of HK$0.081 per Share as quoted on the Stock Exchange for the last five full trading days up to and including 1 April 2010;

(d) a premium of approximately 338.6% to the average of the closing price of HK$0.057 per Share as quoted on the Stock Exchange for the last ten full trading days up to and including 1 April 2010; and

(e) a discount of approximately 75.5% over the audited net asset value of the Company of HK$1.02 per Share as at 31 March 2010.

As the Conversion Price is a premium of approximately 108.3% to the closing price of HK$0.12 per Share as quoted on the Stock Exchange on 1 April 2010, which is the last Business Day immediately preceding the suspension of trading in the Shares, we are of the view that the Conversion Price is fair and reasonable so far as the Company and Independent Shareholders are concerned.

In respect of the Conversion Price which is the discount of approximately 75.5% over the audited net asset value of the Company of HK$1.02 per Share as at 31 March 2010, we are of the view that such discount over the adjusted net asset value of the Company should not be used as the benchmark for the evaluation of the fair and reasonableness of the Conversion Price due to the following reasons:

a. The Company is not an asset based entity. The net asset of the Company does not have any material asset save for the exploration and evaluation asset of HK$8,435.7 million, which is two exploration permits in respect of the rights to conduct mining operations in the specified mining area in Philippines for a term not exceeding 25 years from the execution date and renewable for another term of not exceeding 25 years; and

b. For the year ended 31 March 2010, these two exploration permits do not contribute any revenue to the Company.

(iv) **Interest Rate of the 2010 Convertible Bonds under the Investment Agreement**

The 2010 Convertible Bonds is non interest bearing, which is favourable to the Company. As such, we are of the view that the zero coupon rate of the 2010 Convertible Bond is fair and reasonable so far as the Company and Independent Shareholders are concerned.

(v) **Other financing alternatives**

As advised by the Directors, they have considered alternative means of financing, including arrangement of new bank loans, rights issue and open offer. However, taking on additional bank borrowings may increase the Group's current gearing ratio, leading to a rise in borrowing costs. On the other hand, both open offer and rights issue may incur substantial costs to the Company, as a typical rights issue or open offer would involve engagement of underwriter. The substantial cost incurred in form of underwriting commission may not be favourable to the Company and the Independent Shareholders.

Based on the aforesaid, we are of the view that the Investment Agreement and transactions contemplated thereunder allow the Company to raise funds with relatively low transaction cost, and the Debt Restructuring Agreement and transaction contemplated thereunder will strengthen the capital base and the financial position of the Company, particularly after the repayment of the Kesterion Existing Debt upon Completion, and thus we are of the view that the Investment Agreement, the Debt Restructuring Agreement and the transactions contemplated thereunder are in the interest of the Company and the Independent Shareholders as a whole.

(vi) **Financial effects of the Investment Agreement, Debt Restructuring Agreement and transactions contemplated thereunder**

The Investment Agreement and transactions contemplated thereunder

(a) Earnings

The audited net loss of the Group for the year ended 31 March 2010, as extracted from the annual result 2010 of the Company was approximately HK$264 million. As the 2010 Convertible Bond has zero interest rate, it would not incur additional cash outlay by the Group. Any imputed interest expenses to be charged to the income statement as required by Hong Kong accounting standards will be of non-cash nature.

(b) Working Capital

The audited net current liabilities of the Group as at 31 March 2010, as extracted from the annual result for the year ended 31 March 2010, was approximately HK$195.4 million.

The net proceeds from the issue of Subscription Shares and 2010 Convertible Bonds will be utilized for the repayment of HK$1,769.5 million of the Kesterion Existing Debt. The remaining net proceeds will be used as the start up cost for the mining project in Philippines and thus the working capital of the Group will be increased.

(c) Net Asset Value

The audited consolidated net assets of the Group as at 31 March 2010, as extracted from its annual result of the year ended 31 March 2010, was approximately HK$7,772 million.

Upon issuance of the 2010 Convertible Bonds, there will be (i) an increase in total assets arising from the receipt of the net proceeds from the issuance of 2010 Convertible Bonds and the Subscription Shares; (ii) an increase in total liabilities and total equities arising from the actual fair value of the liability portion of the 2010 Convertible Bonds and corresponding residual amount assigned as equity portion of the 2010 Convertible Bonds respectively and thus there will be an increase on the net assets value of the Group. Upon full conversion of the 2010 Convertible Bonds, there will be a decrease on the then total liabilities booked on the accounts of the Group immediately after the issue of the 2010 Convertible Bonds and an increase on the then total equities of the Group arising from the issue and allotment of the Conversion Shares, which will further increase the net asset value of the Group. Therefore, the Subscription Agreement with full conversion of the 2010 Convertible Bonds, will enhance the net asset position of the Group though there will be a decrease of net asset value per Share due to the increase of issued Shares assuming full conversion of the 2010 Convertible Bonds.

The Debt Restructuring Agreement and transactions contemplated thereunder

(a) Earnings

The audited net loss of the Group for the year ended 31 March 2010, as extracted from the annual result 2010 of the Company was approximately HK$264 million. Imputed interest expenses for the 2008 Kesterion Convertible Bonds Kesterion Existing Promissory Notes in an aggregate amount of approximately HK$271 million were charged to the income statement for the year. Full repayment of Kesterion Existing Debts will eliminate the future charge of such imputed interest expenses to the income statement of the Group.

(b) Working Capital

The audited net current liabilities of the Group as at 31 March 2010, as extracted from the annual result for the year ended 31 March 2010, was approximately HK$195.4 million. Full repayment of Kesterion Existing Debts will reduce working capital of the Group. However, as the Kesterion Existing Debts will be fully repaid concurrently with the receipt of the net proceeds upon Completion of the Investment Agreement, net working capital position of the Group will be improved.

(c) Net Asset Value

According to the annual result for the year ended 31 March 2010, the Group had a net asset value of approximately HK$7,772 million as at 31 March 2010. Upon full repayment of the Kesterion Existing Debts, there will be a decrease of total liabilities and equity which will result a net decrease in net asset value of the Group.

Based on the above analysis on the financial effects of the Investment Agreement, the Debt Restructuring Agreement and the combined effects of the transactions contemplated thereunder, we noted that (i) the net assets of the Group will be enhanced; (ii) the proforma net asset value per Share would decrease and (iii) the working capital position will be enhanced. Therefore we are of the view that the Investment Agreement, the Debt Restructuring Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests to the Company and the Independent Shareholders as a whole.

(vii) **Dilution to shareholding of the Independent Shareholders**

Upon completion of the issuance of the Subscription Shares and full conversion of the 2010 Convertible Bonds, 12,000,000,000 Shares in aggregate will be issued, representing (i) approximately 157.9% of the existing issued share capital of the Company; and (ii) approximately 61.2% of the issued share capital of the Company as enlarged by full conversion of the 2010 Convertible Bonds.

Shareholders	**As of the date of this circular**		**Immediately after completion of the allotment and issue of the Subscription Shares**		**Immediately after completion of the allotment and issue of the Subscription Shares and full exercise of the Conversion Rights**	
	No of shares	*%*	*No of shares*	*%*	*No of shares*	*%*
Kesterion	1,020,250,000	13.42	1,020,250,000	5.80	1,020,250,000	5.20
Ms. Eva Wong	2,260,000	0.03	2,260,000	0.01	2,260,000	0.01
Mr. Yin Mark Teh-min	2,880,000	0.04	2,880,000	0.02	2,880,000	0.02
Kesterion Group	1,025,390,000	13.49	1,025,390,000	5.83		5.23
Investor, its ultimate beneficial owners and parties acting in concert with any of them			10,000,000,000	56.81	12,000,000,000	61.22
Independent Shareholders	6,576,144,023	86.51	6,576,144,023	37.36	6,576,144,023	33.55
Total	7,601,534,023	100.00	17,601,534,023	100.00	19,601,534,023	100.00

As shown in the Company's shareholding structure above, the aggregate shareholding interest of the existing public Shareholders will decrease from approximately 86.51% to 33.55%. Taking into account that the issuance of the Subscription Shares and the 2010 Convertible Bonds will bring in additional working capital of the Group for the settlement of the Kesterion Existing Debt and the start up costs of the mining project in Philippines, we are of the view that such dilutive effect to shareholdings to the public Shareholders is fair and reasonable.

WHITEWASH WAIVER

Following the issuance of the Subscription Shares and assuming that the Conversion Rights are not exercised, the Investor, its ultimate beneficial owners and parties acting in concert with any of them will be interested in approximately 56.8% of the enlarged issued share capital of the Company. In accordance with Rule 26.1 of the Takeover Code, the Investor, its ultimate beneficial owners and parties acting in concert with any of them are obliged to make a mandatory general offer for all of the issued Shares and all other securities of the Company in issue which are not already owned or agreed to be acquired by the Investor, its ultimate beneficial owners and parties acting in concert with any of them. The Investor has applied to the Executive for the Whitewash Waiver under Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code. The Investment Agreement is conditional on, among other things, the approval of the Whitewash Waiver by the Executive. The Executive has indicated, subject to the approval by the Independent Shareholders on a vote taken by way of poll, to waive any obligations of the Investor, its ultimate beneficial owners and parties acting in concert with any of them to make a general offer which might result from the allotment and issue of Subscription Shares.

Based on our analysis of the terms of the Investment Agreement, the basis for the Subscription Price and the financial effects on the Group arising from the issuance of the Subscription Shares as set out above, we consider that the issuance of Subscription Shares is in the interests of the Company and the Independent Shareholders as a whole. If the Whitewash Waiver is not granted by the Executive or if the Whitewash Waiver is not approved by the Independent Shareholders, the Investment Agreement will be terminated in accordance with its terms and the Company will lose one of its possible sources of financing for the repayment of the Kesterion Existing Debts and the continuity of its operations. Accordingly, we are of the view that for the purposes of issuance of Subscription Shares as discussed above, the grant of Whitewash Waiver is in the interests of the Company and the Independent Shareholders as a whole and is fair and reasonable as far as the Independent Shareholders are concerned.

Independent Shareholders should note if the Whitewash Waiver is granted, upon completion of the Investment Agreement and assuming that the Conversion Rights are not exercised, the Investor, its ultimate beneficial owners and parties acting in concert with them will be interested in approximately 56.8% of the enlarged issued share capital of the Company. Accordingly, the Investor, its ultimate beneficial owners and parties acting in concert with them may increase their shareholding of the Company without incurring any obligation under Rule 26 of the Takeovers Code to make a mandatory offer.

RECOMMENDATION ON THE INVESTMENT AGREEMENT, THE DEBT RESTRUCTURING AGREEMENT AND THE WHITEWASH WAIVER

Having considered the above factors and reasons, we are of the opinion that (i) the terms of the Investment Agreement and the Debt Restructuring Agreement are fair and reasonable and together with the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole; and (ii) the terms of Debt Restructuring Agreement are in ordinary and usual course of business of the Company and are on normal commercial terms. Accordingly we recommend the Independent Shareholders to vote in favor of the ordinary resolutions approving the Investment Agreement, the Debt Restructuring Agreement and the Whitewash Waiver at the EGM and advise the Independent Board Committee to make the same recommendations.

SPECIAL DEAL

The Company entered into the Debt Restructuring Agreement to restructure the Kesterion Existing Debts and pursuant to which, the Company will repay the Kesterion Existing Debts in full by way of cash received from the net proceeds following completion of the Investment Agreement. Upon the repayment of the Kesterion Existing Debts, the total borrowing of the Group as at 31 March 2010, in an aggregate amount of the face values of HK$1,769.5 million, will be eliminated.

The repayment of the Kesterion Existing Debts by way of cash under the Debt Restructuring Agreement constitutes a Special Deal under the Takeovers Code.

As the basis for the repayment of the Kesterion Existing Debts is on the actual outstanding loan amount from Kesterion, no premium or other non-monetary benefit have been paid to Kesterion pursuant to the terms of the Debt Restructuring Agreement. We are of the view that the basis for the repayment of the Kesterion Existing Debts is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned. As such, we are in the opinion that the Special Deal is also fair and reasonable as far as the Independent Shareholders are concerned.

RECOMMENDATION ON SPECIAL DEAL

Having considered the above factors and reasons, we consider that the terms of the Special Deal are fair and reasonable so far as the Company and the Shareholders are concerned. We are also of the view that the terms of the Special Deal were entered into upon normal commercial terms and that the Special Deal is an arm's length transaction. We also consider that the Special Deal is in the interests of the Company and the Shareholders as a whole. Accordingly we recommend the Independent Shareholders to vote in favor of the ordinary resolutions approving the Special Deal at the EGM and advise the Independent Board Committee to make the same recommendations.

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

Yours faithfully,
For and on behalf of
Donvex Capital Limited
Doris Sy
Director

1. FINANCIAL SUMMARY

A. Three-year financial summary

The following is a summary of the audited consolidated financial results of the Group for each of the three years ended 31 March 2010 as extracted from the relevant annual reports of the Company.

	For the year ended 31 March		
	2010	**2009**	**2008**
		(restated)	(restated)
	HK$'000	*HK$'000*	*HK$'000*
Continuing operations			
Turnover	14,730	4,287	—
Loss from operations	(19,137)	(16,249)	—
Finance costs	(270,814)	(117,872)	—
Loss before income tax	(289,951)	(134,121)	—
Income tax	(24)	(73)	—
Loss for the year from continuing operations	(289,975)	(134,194)	—
(Loss)/profit for the year from discontinued operation, net	25,811	(28,724)	(47,515)
Loss for the year	(264,164)	(162,918)	(47,515)
Attributable to:			
Owner of the Company	(263,794)	(162,860)	(48,642)
Minority interest	(370)	(58)	1,127
	(264,164)	(162,918)	(47,515)
Loss per share			
- Basic	HK(4.83 cents)	HK(7.07 cents)	HK(6.91 cents)
- Fully diluted	HK(4.83 cents)	HK(7.07 cents)	HK(6.91 cents)

	2010	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	8,444,243	8,469,933	105,812
Total liabilities	(672,064)	(1,174,272)	(49,888)
Minority interests	(3,033,050)	(3,033,383)	(5,192)
	4,739,129	4,262,278	50,732

There were no exceptional and extraordinary items in the Company's audited financial statements for the three years ended 31 March 2010, 2009 and 2008. Except for the years ended 31 March 2010 and 2009 for which the auditors' reports have been reproduced below, no qualified opinion was issued by the Company's auditors, CCIF CPA Limited, in respect of the Company's audited financial statements for the year ended 31 March 2008.

B. **Qualified opinion — independent auditor's report for the year ended 31 March 2010**

We were engaged to audit the consolidated financial statements of Pan Asia Mining Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 128, which comprise the consolidated and Company's statements of financial position as at 31 March 2010 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

(a) **Material uncertainties relating to going concern basis**

The Group incurred a consolidated net loss attributable to owners of the Company of approximately HK$263,794,000 for the year ended 31 March 2010 and had consolidated net current liabilities of approximately HK$195,399,000 as at 31 March 2010.

As explained in note 43 (b) to the consolidated financial statements, on 9 April 2010, a conditional Investment Agreement (as amended and supplemented on 14 May 2010) was entered between the Company and an independent third party, which will involve the issue of 10,000,000,000 new shares for an aggregate consideration of HK$2,500 million and new unsecured zero coupon rate convertible bonds with an aggregate principal amount of US$ 64 million (equivalent to approximately HK$500 million). Out of the aggregate net proceeds of approximately HK$2,970 million from the issue of new shares and the new convertible bonds, approximately HK$1,769.5 million will be used for the full settlement of the aggregate amounts due by the Company to a substantial shareholder, Kesterion Investments Limited, comprising promissory note with principal value of HK$190 million, existing convertible bonds with principal value of HK$1,571.5 million and short-term shareholder loan of HK$8 million as further detailed in note 43(b) to consolidated financial statements, under a Debt Restructuring Agreement dated 14 May 2010 entered into among the Company, BSEL and Kesterion and the balance of the net proceeds of approximately HK$1,200.5 million will be used for financing the mining operations in the Philippines and general working capital of the Group. The completion of the Investment Agreement and Debt Restructuring Agreement will be subject to the fulfilment of certain pre-conditions as referred to in note 43 (b) to the consolidated financial statements. Up to the date of this report, the Investment Agreement and Debt Restructuring Agreement are not yet completed. The uncertain outcome of successful completion and implementation of the above-mentioned Investment Agreement and Debt Restructuring Agreement casts significant doubt on the Group's ability to meet its obligations as and when they fall due and to carry on its business as a going concern for the foreseeable future.

The consolidated financial statements did not include any adjustments that would have been made to reduce the value of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively, should the Group be unable to continue as a going concern.

(b) **Material uncertainty relating to the exploitation rights for mining operations in the Philippines**

At 31 March 2010, the Company indirectly owns 64% equity interest in Mt. Mogan Resources and Development Corporation ("Morgan") incorporated in the Philippines. During the year ended 31 March 2010, Mogan has obtained two exploration permits to explore magnetite sand and other associated mineral deposits located in specific offshore area with 41,094 hectares in the Lyete Gulf and San Pedro Bay off Leyte and Samar Provinces of the Philippines ("Mining Area"), as further disclosed in note 17 to the financial statements. At 31 March 2010, the exploration and evaluation assets under these two exploration permits, as stated in the consolidated statement of financial position, amounted to HK$8,435,670,000. Pursuant to the Mining Act 1995 (Republic Act No. 7942) in the Philippines, an exploration permit grants its holder the right to conduct exploration for the specified mineral(s) in the specific area(s) within a specified timeframe; whilst a Mineral Production Sharing Agreement, when made with and granted by the Department of Environment and Natural Resources /Mines and Geosciences Bureau ("DENR/MGB") on behalf of the Government of the Philippines, shall provide the applicant the exclusive rights to conduct the mining operations to extract and exploit the pre-agreed mineral(s) in the specific area(s) for a term not exceeding 25 years starting from the date of execution and renewable for a further term not exceeding 25 years.

Mogan has been conducting the exploration programs on the Mining Area covered by the two exploration permits. On 15 June 2010, Mogan has submitted and filed the application for a Mineral Production Sharing Agreement for a portion of the Mining Area with DENR/MGB. The directors of the Company believe that a Mineral Production Sharing Agreement for the Mining Area will be awarded by DENR/MGB of the Philippines to Mogan. The consolidated financial statements do not include any adjustments that would be necessary if the Mineral Production Sharing Agreement for the Mining Area would not be awarded. We consider that adequate disclosures have been made. However, the uncertain outcome of obtaining the Mineral Production Sharing Agreement raises significant doubt on the Group's mining rights to the Mining Area in the Philippines, which in turn creates a material uncertainty as to whether or not impairment should be recognised on the exploration and evaluation assets of the Group.

In view of the extent and potential impact of the material uncertainties described above, we disclaimed our opinion in these respects.

Disclaimer of opinion: Disclaimer on view given by consolidated financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 28 June 2010

Leung Chun Wa
Practising Certificate Number P04963"

C. **Qualified opinion — independent auditor's report for the year ended 31 March 2009**

"We have audited the consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 111, which comprise the consolidated and Company balance sheets as at 31 March 2009, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

(a) **Uncertainties relating to Exploration Permit and Mineral Agreement**

At 31 March 2009, "Payment for intangible assets- mining claims" in the amount of HK$8,429,879,000 was recorded in the consolidated balance sheet. As explained in notes 14 and 37 to the consolidated financial statements, through the acquisition of 100% issued capital of First Pine Enterprises Limited on 18 December 2008, the Company indirectly owns 64% equity interests in Mt. Mogan Resources and Development Corporation ("Mogan") incorporated in the Philippines. Mogan holds certain offshore exploration permit applications for mining claims that are the rights to explore, develop, operate and exploit magnetite sand and other associated mineral deposits located in specified area of approximately 41,094 hectares in the Leyte Gulf and San Padro Bay off Leyte and Samar Provinces, the Philippines ("Mining Area") subject to the issuance in favour of Mogan of an

Exploration Permit and a Mineral Agreement in accordance with the Philippine Mining Act 1995 (Republic Act No. 7942) (the "Mining Act"). Pursuant to the Mining Act, an Exploration Permit, when approved by the Mines and Geosciences Bureau (the "MGB") of the Department of Environment and Natural Resources (the "DENR") of the Philippines, grants the exploration mining applicant the right to conduct exploration for the specified mineral(s) in the specified area(s) within a specified timeframe; whilst a Mineral Agreement, when made with and granted by the DENR/MBG acting on behalf of the Government of Philippines, shall provide the applicant with the exclusive rights to conduct mining operations to extract and exploit the pre-agreed upon mineral resource(s) in the specified area(s) for a term not exceeding 25 years starting from its execution date and renewable for another term of not exceeding 25 years.

As at 31 March 2009 and up to the date of this report, neither an Exploration Permit nor a Mineral Agreement has been approved and granted in favour of Mogan by the relevant authorities of the Philippines. The directors of the Company believe that Mogan will ultimately be able to obtain both the Exploration Permit and Mineral Agreement in respect of the Mining Area. The directors of the Company has obtained legal opinion in respect of Philippine law that the MGB has accepted Mogan's exploration permit applications and that Mogan has priority in securing the Exploration Permit(s) over the applied Mining Area. During the year, Mogan also entered into a Memorandum of Agreement with DENR ("MOA") under which Mogan was entitled to conduct a technical study jointly with DENR in the area covered by Mogan's exploration permit applications. Mogan has also entered into a soil sampling agreement with a geotechnical contractor during the year. Mogan has subsequently commenced exploration jointly with DENR in the Leyte Gulf area covered by Mogan's exploration permit applications and the MOA since early April 2009. The consolidated financial statements did not include any adjustments that would be necessary if the Group fails to obtain the Exploration Permit and Mineral Agreement from the relevant authorities of the Philippines in accordance with Mining Act. We consider that adequate disclosures have been made. However, the existence of material uncertainties surrounding the outcome of the grant of the Exploration Permit and Mineral Agreement by the relevant authorities of the Philippines cast significant doubt on the legal title to the mining claims over the Mining Area, which in turn creates a material uncertainty as to whether impairment should be recognized against the Group's "Payment for intangible assets- mining claims".

(b) **Uncertainties relating to going concern basis**

As disclosed in note 39 to the consolidated financial statements, the Company and its wholly-owned subsidiary, Black Sand Enterprises Limited (as borrower), entered into a convertible loan agreement dated 30 September 2008 with an independent party which has agreed to provide a loan of Euro 200 million for financing the future mining operations in the Philippines. At 31 March 2009 and up to the date of this report, the draw-down of the loan is not yet completed. At 31 March 2009, the Group has net current liabilities of HK$12,175,000 and a loss of HK$162,860,000 attributable to equity holders of the Company for the year then ended. The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the successful outcome of the grant of Exploration Permit and Mineral Agreement for mining operation in the Philippines as mentioned in the preceding paragraph, successful completion of the convertible loan drawn-down and future funding being available (as further disclosed in note 2(b) to the financial statements), and the Group's ability to attain a profitable mining operation in the future. We considered that appropriate disclosures have been made. However, the material uncertainties surrounding the outcome of these matters raise significant doubt about the Group's ability to continue as a going concern. The consolidated financial statements did not include any adjustments that would have to be made to reduce the value of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively, should the Group be unable to continue as a going concern.

In view of the extent and potential impact of the material uncertainties described above, we disclaim our opinion in these respects.

Disclaimer of opinion: Disclaimer on view given by consolidated financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 29 June 2009

Leung Chun Wa
Practising Certificate Number P04963"

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE TWO YEARS ENDED 31 MARCH 2010

Set out below are the audited consolidated financial statements of the Group for the two years ended 31 March 2010 and 2009 which have been published in the Company's annual report 2010:

Consolidated Income Statement
For the year ended 31 March 2010

	Note	**2010** *HK$'000*	**2009** *HK$'000* (restated)
Continuing operations			
Turnover	3	14,730	4,287
Cost of sales		(14,591)	(4,322)
Gross profit		139	(35)
Other revenue and net income	4	1,377	1,092
Administrative expenses		(20,618)	(17,285)
Share of results of associates	21	(35)	(21)
Loss from operations		(19,137)	(16,249)
Finance costs	5(a)	(270,814)	(117,872)
Loss before income tax		(289,951)	(134,121)
Income tax	6(a)	(24)	(73)
Loss for the year from continuing operations		(289,975)	(134,194)
Discontinued operations	9		
Profit/(loss) for the year from discontinued operations		25,811	(28,724)
Loss for the year		(264,164)	(162,918)
Attributable to:			
Owners of the Company	11	(263,794)	(162,860)
Minority interests		(370)	(58)
		(264,164)	(162,918)

Consolidated Income Statement *(continued)*
For the year ended 31 March 2010

	Note	**2010**	**2009**
		HK$'000	*HK$'000*
			(restated)
Earnings/(loss) per share	13		
From continuing and discontinued operations			
Basic and diluted		HK (4.83 cents)	HK (7.07 cents)
From continuing operations			
Basic and diluted		HK (5.30 cents)	HK (5.82 cents)
From discontinued operations			
Basic and diluted		HK0.47 cents	HK (1.25 cents)

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2010

	Note	**2010**	**2009**
		HK$'000	*HK$'000*
Loss for the year		(264,164)	(162,918)
Other comprehensive income/(loss)			
Exchange differences on translation of financial statements of overseas subsidiaries		19	73
Reclassification adjustment on release of exchange reserve upon disposal of subsidiaries	10	(156)	—
Total comprehensive loss for the year		(264,301)	(162,845)
Attributable to:			
Owners of the Company		(263,931)	(162,787)
Minority interests		(370)	(58)
		(264,301)	(162,845)

Consolidated Statement of Financial Position

As at 31 March 2010

	Note	**2010** *HK$'000*	**2009** *HK$'000*
Non-current assets			
Property, plant and equipment	15	1,505	2,981
Payment for intangible assets — mining claims	16	—	8,429,879
Exploration and evaluation assets	17	8,435,670	—
Other intangible assets	18	—	5,016
Goodwill	19	—	—
Interests in associates	21(a)	227	262
Films in progress		—	385
Deposits for acquisition of film rights		—	156
		8,437,402	8,438,679
Current assets			
Inventories	22	—	2,360
Trade and other receivables	23	1,111	5,467
Amount due from a related party	38(a)	—	84
Amount due from a related company	38(b)	—	10
Held-for-trading investments	25	1,463	—
Pledged bank deposits	24	—	2,183
Cash and bank balances	26	4,267	21,150
		6,841	31,254
Current liabilities			
Trade and other payables	27	9,334	32,453
Amount due to a related company	38(c)	—	2,600
Amounts due to related parties	38(d)	—	3,063
Amounts due to associates	21(b)	57	73
Shareholder's loan	38(e)	8,000	—
Bank overdrafts and borrowings	28	—	4,520
Promissory note	30	184,753	—
Obligations under finance leases	31	—	424
Current taxation	32(a)	96	296
		202,240	43,429
Net current liabilities		(195,399)	(12,175)
Total assets less current liabilities		8,242,003	8,426,504

Consolidated Statement of Financial Position *(continued)*
As at 31 March 2010

	Note	**2010** *HK$'000*	**2009** *HK$'000*
Non-current liabilities			
Bank overdrafts and borrowings	28	—	1,819
Convertible bonds	29	469,824	964,035
Promissory note	30	—	160,510
Obligations under finance leases	31	—	302
Deferred tax liabilities	32(b)	—	4,177
		469,824	1,130,843
Net assets		7,772,179	7,295,661
Capital and reserves			
Share capital	33	76,015	35,465
Reserves	34(a)	4,663,114	4,226,813
Equity attributable to owners of the Company		4,739,129	4,262,278
Minority interests		3,033,050	3,033,383
Total equity		7,772,179	7,295,661

Statement of Financial Position

As at 31 March 2010

	Note	**2010** *HK$'000*	**2009** *HK$'000*
Non-current assets			
Investments in subsidiaries	20	5,286,330	5,293,035
Current assets			
Other receivables	23	37	—
Cash and bank balances	26	20	168
		57	168
Current liabilities			
Other payables	27	5,402	2,282
Shareholder's loan	38(e)	8,000	—
		13,402	2,282
Net current liabilities		(13,345)	(2,114)
Total assets less current liabilities		5,272,985	5,290,921
Non-current liabilities			
Convertible bonds	29	469,824	964,035
Net assets		4,803,161	4,326,886
Capital and reserves			
Share capital	33	76,015	35,465
Reserves	34(b)	4,727,146	4,291,421
Total equity		4,803,161	4,326,886

Consolidated Statement of Changes in Equity
For the year ended 31 March 2010

	Equity attributable to owners of the Company									
	Share Capital	Share premium	Special reserve	Exchange reserve	Share option reserve	Convertible bond equity reserve	Accumulated losses	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2008	19,325	105,173	10,440	83	320	—	(84,609)	50,732	5,192	55,924
Acquisition of subsidiaries (note 40)	—	—	—	—	—	—	—	—	3,033,421	3,033,421
Equity component of convertible bonds (note 29)	—	—	—	—	—	4,108,828	—	4,108,828	—	4,108,828
Issue of new shares										
- placing of shares (note 33(a)(i))	1,140	48,110	—	—	—	—	—	49,250	—	49,250
- acquisition of subsidiaries (note 33(a) (ii))	5,000	65,000	—	—	—	—	—	70,000	—	70,000
- conversion of convertible bonds (note 33(a) (iii))	10,000	699,108	—	—	—	(562,853)	—	146,255	—	146,255
Deregistration of a subsidiary (note 41)	—	—	—	—	—	—	—	—	(5,172)	(5,172)
Total comprehensive loss for the year	—	—	—	73	—	—	(162,860)	(162,787)	(58)	(162,845)
At 31 March 2009 and 1 April 2009	35,465	917,391	10,440	156	320	3,545,975	(247,469)	4,262,278	3,033,383	7,295,661
Issue of new shares										
- conversion of convertible bonds (note 33(a) (iii))	40,550	2,982,602	—	—	—	(2,282,370)	—	740,782	—	740,782
Disposals of subsidiaries (note 10)	—	—	—	(156)	—	—	—	(156)	37	(119)
Total comprehensive loss for the year	—	—	—	19	—	—	(263,794)	(263,775)	(370)	(264,145)
At 31 March 2010	76,015	3,899,993	10,440	19	320	1,263,605	(511,263)	4,739,129	3,033,050	7,772,179

Consolidated Statement of Cash Flows
For the year ended 31 March 2010

	Note	**2010** *HK$'000*	**2009** *HK$'000*
Operating activities			
Loss before income tax			
- Continuing operations		(289,951)	(134,121)
- Discontinued operations	9	25,811	(28,521)
		(264,140)	(162,642)
Adjustments for:			
Finance costs	5(a), 9	271,019	118,640
Interest income	4	(4)	(42)
Amortisation of:	9		
- film rights		496	4,551
- programme rights		—	258
- intellectual property rights		—	4,062
Depreciation	5(c), 9	1,272	1,292
Gain on disposal of film rights		—	(3,551)
Gain on disposals of subsidiaries	10	(30,538)	—
Loss on disposal of property, plant and equipment	9	—	118
Share of results of associates	21(a)	35	21
Write down of inventories	9	—	410
Impairment losses:	9		
- intellectual property rights		—	12,568
- trade receivables		—	3,466
- other receivables		—	2,991
- programme rights		—	632
- goodwill		—	4,259
Reversal of impairment on amount due from a former related company		—	(4,125)
Reversal of impairment on other trade receivables		—	(982)
Operating loss before changes in working capital		(21,860)	(18,074)
Decrease in inventories		592	6,399
Increase in amount due from a related party		(545)	(84)
Decrease in amount due from a related company		10	2
Increase in held-for-trading investments		(1,463)	—
(Increase)/decrease in trade and other receivables		(1,012)	2,729
Increase/(decrease) in trade and other payables		6,814	(2,631)
(Decrease)/increase in amount due to a related company		(3,897)	1,325
Increase in amounts due to related parties		855	2,546
(Decrease)/increase in amounts due to associates		(16)	73
Cash used in operating activities		(20,522)	(7,715)
Tax refunded/(paid)		(41)	14
Net cash used in operating activities		(20,563)	(7,701)

Consolidated Statement of Cash Flows *(continued)*
For the year ended 31 March 2010

	Note	**2010** *HK$'000*	**2009** *HK$'000*
Investing activities			
Interest received		4	42
Acquisition of film rights		—	(546)
Acquisition of subsidiaries		—	(51,156)
Payment for mining claims		—	(2,364)
Acquisition of exploration and evaluation assets		(5,791)	—
Acquisition of property, plant and equipment		(459)	(1,756)
Decrease in deposits for acquisition of film rights		31	67
Proceeds from disposal of film rights		—	3,551
Cash inflow from disposals of subsidiaries	10	1,856	—
Net cash used in investing activities		(4,359)	(52,162)
Financing activities			
Proceeds from issue of new shares, net		—	49,250
Repayment of promissory note		—	(10,000)
Decrease in minority interests		—	(5,172)
Increase in pledged bank deposits		—	(28)
Shareholder's loan raised		10,000	—
Repayment of shareholder's loan		(2,000)	—
New bank and other loans raised		3,116	—
Interest paid on bank borrowings		(187)	(718)
Repayment of bank and other borrowings		(307)	(4,275)
Interest element of finance leases		(18)	(50)
Repayment of capital element of finance leases		(140)	(346)
Net cash generated from financing activities		10,464	28,661
Net decrease in cash and cash equivalents		(14,458)	(31,202)
Cash and cash equivalents at beginning of the year		18,718	49,842
Effect of foreign exchange rate changes		7	78
Cash and cash equivalents at end of the year	26	4,267	18,718

Notes to the Financial Statements

1. General Information

Pan Asia Mining Limited (the "Company") is an exempted company with limited liability incorporated in the Cayman Islands. The address of its registered office is P.O. Box 309, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies. The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited.

Pursuant to a special resolution of the Company's shareholders passed on 4 September 2009, the name of the Company was changed from Intelli-Media Group (Holdings) Limited to Pan Asia Mining Limited.

During the year, the principal activities of the Company and its subsidiaries (together referred to as the "Group") included exploration and exploitation of mineral resources in the Philippines and trading of metals.

In addition, during the year, the Group discontinued the businesses of sub-licensing of film rights and sales of video products (see notes 9 and 10).

Apart from the disposals as described above, there were no other significant changes in the Group's operations during the year.

The principal activities of the subsidiaries and associates are set out in notes 20 and 21 to the financial statements respectively.

The functional currency of the Company is US$ whilst the functional currencies of its major subsidiaries are US$ and HK$. These financial statements are presented in HK$. The directors of the Company consider that it is more appropriate to present these financial statements in HK$ as most of its public investors are located in Hong Kong.

2. 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 term 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.

(b) **Applicable of new and revised Hong Kong Financial Reporting Standards**

In the current year, the Group has applied the following new and revised Standards, Amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly-controlled Entity or Associate
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) — Int 9 and HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) — Int 13	Customer Loyalty Programmes
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) — Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Other than as noted below, the adoption of the new and revised HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKAS 1 (Revised 2007) Presentation of Financial Statements

As a result of the adoption of HKAS 1 (Revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. The change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

HKAS 27 (Amendments) Cost of an investment in a subsidiary, jointly controlled entity or an associate

The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 April 2009, all dividends receivable from subsidiaries whether out of pre-acquisition or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless the carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

HKFRS 8 Operating segments

The adoption of HKFRS 8 has not affected the indentified and reportable operating segments for the Group. However, reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. As the Group's operating segments reported to chief operating decision maker as required by HKFRS 8 are the same as the business segments reported in accordance with the HKAS 14 Segment Reporting, the adoption of HKFRS 8 has not resulted in a re-designation of the Group's reportable segments but to separate sub-licensing of film rights and sales of video products into two reportable segments (see note 14). Corresponding accounts have been provided on a basis consistent with the revised segment information.

HKFRS 7 (Amendment) - Improving disclosures about financial instruments

As a result of the adoption of the amendments to HKFRS 7, the financial statements include expanded disclosures in note 36(f)(i) about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

The Group has not early applied any of the following new and revised Standards, Amendments and Interpretations which have been issued but are not yet effective for annual periods beginning on 1 April 2009:

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[5]

HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 5 (Amendment)	Non-current Assets Held for Sale and Discontinued Operations[3]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) — Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC) — Int 17	Distribution of Non-cash Assets to Owners[1]
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

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

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

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

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

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

6 Effective for transfers on or after 1 July 2010

7 Effective for transfers on or after 1 January 2013

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

(c) **Basis of preparation of the financial statements**

The consolidated financial statements for the year ended 31 March 2010 comprise the Company and its subsidiaries (collectively referred to as the "Group"). The financial statements have been prepared under the historical cost convention, except for the held-for-trading investments which are measured at fair value.

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 believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities 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.

In preparing the financial statements, the directors of the Company have carefully considered the future liquidity in view of its consolidated net loss attributable to owners of the Company of approximately HK$263,794,000 (2009: HK$162,860,000) for the year ended 31 March 2010, net current liabilities of approximately HK$195,399,000 (2008: HK$12,175,000) as at 31 March 2010 and the capital expenditure for the future mining operations in the Philippines.

As more detailed in note 43(b) to these financial statements, on 9 April 2010, a conditional Investment Agreement (as amended and supplemented on 14 May 2010) was entered into between the Company and an independent third party, China Raybo International Corp. Ltd, ("the Investor"), pursuant to which, the Investor will subscribe for (i) 10,000,000,000 new shares of HK$0.01 each of the Company at the subscription price of HK$0.25 each, for an aggregate consideration of HK$2,500 million and (ii) three-year unsecured zero coupon rate convertible bonds with an aggregate principal amount of US$64 million (equivalent to approximately HK$500 million). Aggregate net proceeds from the subscription of subscription shares and the convertible bonds will be approximately HK$2,970 million, out of which, approximately HK$1,769.5 million will be used for the full settlement of the aggregate amounts due from the Company to a substantial shareholder, Kesterion Investments Limited, comprising promissory note with principal amount of HK$190 million (note 30), convertible bonds with principal amount of HK$1,571.5 million (note 29) and short-term loan of HK$8 million (note 38(e)) (collectively "the Kesterion Existing Debts") under a Debt Restructuring Agreement dated 14 May 2010 entered into among the Company, BSEL and Kesterion and the balance of the net proceeds of approximately HK$1,200.5 million will be used for financing the mining operations in the Philippines and general working capital of the Group. Up to the date of this report, the Investment Agreement and Debt Restructuring Agreement have not yet been completed.

In the opinion of the directors, the above-mentioned Investment Agreement and Debt Restructuring Agreement will be successfully completed and as such, the Group will be able to meet its financial obligations as and when they fall due and to carry on its business as a going concern for the foreseeable future. Accordingly, the directors are of the opinion that it is appropriate to prepare the financial statements for the year ended 31 March 2010 on a going concern basis. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

(d) **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 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 statement of financial position 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 and the consolidated statement of comprehensive income 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 statement of financial position depending on the nature of the liability.

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

(e) **Associates**

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financing and operating policy decision.

An investment in an associate 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 associate's net assets and any impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement of the Group includes the Group's share of the post-acquisition, post-tax results of the associate for the year, and any impairment loss relating to the investment in associates recognised for the year.

When the Group's share of losses exceeds its interest in the associate, 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 associate. For this purpose, the Group's interest in the associate 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 associate.

Unrealised profits and losses resulting from the Group's transactions with the associate are eliminated to the extent of the Group's relevant interests in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case losses are recognised immediately in profit or loss.

In the Company's statement of financial position, its investment in an associate is stated at cost less impairment losses (see note 2(o)(ii)).

(f) **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 identified assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill arising on a business combination is allocated to cash-generating units and is tested annually for impairment (see note 2(o)(ii)).

Any excess of the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised immediately in income statement.

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

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

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 2 (z)(v) and (vi).

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

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

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(o)(ii)).

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 at the following annual rates:

Leasehold improvements	10% or over the term of the leases
Furniture and fixtures	30%
Office equipment	30%
Motor vehicles	30%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation 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) **Other intangible assets (other than goodwill)**

(i) *Film rights*

Advances prepaid and paid by instalments under licensing agreements for reproduction and distribution of audio-visual products and for sub-licensing of film titles, in specific geographical areas and time periods, are recorded as payment for acquisition of film rights. Upon receipt of the master materials of films, all required payments under the licensing agreements are recorded as film rights. The balances payable under the licensing agreements are recorded as liabilities.

Film rights are stated at cost less accumulated amortisation and any accumulated impairment losses.

Film rights are amortised at rates calculated to write off the costs in proportion of the expected revenues. Such rates are subject to annual review by the directors.

(ii) *Trademark*

Trademark represents license fee paid for the use of trademark and is stated at cost less accumulated amortisation and any identified impairment losses. The cost of trademark is amortised on a straight-line basis over the estimated useful life.

(iii) *Programme and intellectual property rights*

The cost of programme and intellectual property rights are stated at cost less accumulated amortisation and any identified impairment losses. Programme and intellectual property rights are amortised on a straight-line basis over the estimated useful life.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the asset's estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— Film rights	2-5 years
— Trademark	5 years
— Programme and intellectual property rights	5 years

Both the period and method of amortisation are reviewed annually.

(j) **Films in progress**

Films in progress are stated at cost less any identified impairment losses. Costs include all direct costs associated with the production of films. Costs of films are transferred to film rights upon completion. Provisions are made for costs which are in excess of the expected future revenue generated by these films. The balance of film production cost not yet due are disclosed as commitments.

(k) **Payment for tangible assets — mining claims**

Payments for mining claims are recognised at cost at initial recognition. Subsequent to initial recognition, mining claims are stated at cost less any accumulated impairment losses. Mining claims represent all the rights of the Group to explore, develop and utilise in and to magnetite other minerals located in the specified mining area pursuant to the issuance of an exploration permit and mining agreement by the relevant authorities of the Philippines. When the exploration permit is issued, payments for mining claims are reclassified as exploration and evaluation assets (see note 2(m)).

(l) **Leased assets**

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

(i) *Classification of assets leased to the Group*

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

(ii) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment 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 or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(o)(ii). Finance charges implicit in the lease payments are 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 period 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 in 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 under an operating lease is amortised on a straight-line basis over the period of the lease term.

(m) **Exploration and evaluation assets**

Exploration and evaluation assets are stated at cost less impairment losses (see note 2(n)).

Exploration 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.

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 reserves of the ore mines. If any project is abandoned during the exploration and evaluation stage, the related exploration and evaluation assets are written off to profit or loss.

(n) **Impairment of exploration and evaluation assets**

The carrying amount of the exploration and evaluation assets is reviewed annually and adjusted for impairment in accordance with HKAS 36 Impairment of Assets whenever one of the following events or changes in circumstances indicates that the carrying amount may not be recoverable:

— the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

— substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

— exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area; or

— sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development of by sale.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

(o) **Impairment of assets**

(i) *Impairment of trade and other receivables*

Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more 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;

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

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For trade receivables and other financial assets carried at amortised cost, the impairment loss is 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.

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 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 to allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) *Impairment of other assets*

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

— property, plant and equipment;

— goodwill;

— other intangible assets; and

— investments in subsidiaries and associates.

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

— Calculation of recoverable amount

The recoverable amount of an asset is the higher 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 if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount 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 impairment losses 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 the 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.

(p) **Inventories**

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

Cost is calculated using the weighted average cost formula and comprises all costs to 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 the inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is realisable. 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.

(q) **Trade and other receivables**

Trade and other receivables are initially recognised at fair value and thereafter measured at amortised cost using the effective interest method, less provision for impairment losses for bad and doubtful debts (see note 2(o)(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 of doubtful debts.

(r) **Interest-bearing borrowings and promissory note**

Interest-bearing borrowings and promissory note are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings and promissory note are stated at amortised cost, with any difference between the amount initially recognised (net of transaction costs) and the redemption value being recognised in the profit or loss over the period of the borrowings, using the effective interest method.

(s) **Convertible bonds**

(i) *Convertible bonds that contains an equity component*

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

At initial recognition, the liability component of the convertible bonds is determined using a market interest rate for an equivalent non-convertible bond. The remainder of the proceeds is allocated to the conversion option as equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion or maturity. The equity component is recognised in equity, net of any tax effects.

When the bond is converted, the relevant equity component and the carrying amount of the liability component at the time of conversion are transferred to share capital and share premium for the shares issued. When the note is redeemed, the relevant equity component is transferred to retained profits.

(ii) *Convertible notes that do not contain an equity component*

All other convertible notes which do not exhibit the characteristics mentioned in (i) above are accounted for as hybrid instruments consisting of an embedded derivative and a host debt contract.

At initial recognition, the embedded derivative of the convertible notes is accounted for as derivative financial instruments and is measured at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability under the contract. Transaction costs that relate to the issue of the convertible note are allocated to the liability under the contract.

The derivative component is subsequently carried at fair value and changes in fair value are recognised in the income statement. The liability under the contract is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion or maturity.

When the note is converted, the carrying amount of the liability under the contract together with the fair value of the relevant derivative component at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the note is redeemed, any difference between the redemption amount and the carrying amounts of both components is recognised in profit or loss.

(t) **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 Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(u) **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.

(v) **Borrowing costs**

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

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

(w) **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.

(ii) *Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date after taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options 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. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where the 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 is exercised (when it is transferred to the share premium account) or the option 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.

(x) **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 the profit or loss except to the extent that they relate to items recognised directly in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

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

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

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

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

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

(y) **Financial guarantees issued, provisions and contingent liabilities**

(i) *Financial guarantees issued*

Financial guarantees are contracts that requires 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 payments 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 guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2 (y)(ii) 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 depreciation.

(ii) *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 is also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(z) **Recognition of revenue**

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 the profit or loss as follows:

(i) *Sale of goods*

Revenue from sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(ii) *Sub-licensing of film rights*

Licence income from film rights licensed to licensees is recognised over the license period and when the films are available for showing or telecast.

(iii) *Film exhibition and film distribution income*

Film exhibition and film distribution income is recognised when the right to receive payment is established.

(iv) *Marketing service income and management fee income*

Marketing service income and management fee income are recognised when the related services are rendered.

(v) *Interest income*

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

(vi) *Dividend income*

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

(aa) **Foreign currency translation**

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

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

The results of operations outside Hong Kong are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items in the statement of financial position are translated into Hong Kong dollars at the foreign exchange rates ruling at the date of statement of financial position. 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 relating to that foreign operation is reclassified from equity to the profit or loss on disposal.

(ab) **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 excise 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 the key management personnel of the Group or its 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.

(ac) **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 if 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 constituting the discontinued operation.

(ad) **Segment reporting**

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

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

3. Turnover

The Group is principally engaged in the exploration and exploitation of mineral resources and trading of metals.

Turnover represents the sales value of goods sold to customers and is stated after deducting goods returns and trade discounts. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	Continuing operations	
	2010	**2009**
	HK$'000	*HK$'000*
Sales of metals	14,730	4,287

4. Other Revenue and Net Income

	Continuing operations	
	2010	**2009**
	HK$'000	*HK$'000*
Other revenue		
Interest income on financial assets not at fair value through profit or loss	2	9
Other net income		
Gain on trading of securities and futures	1,375	596
Sundry income	—	487
	1,375	1,083
	1,377	1,092

5. Loss before Income Tax

Loss before income tax is arrived at after charging:

	Continuing operations	
	2010	**2009**
	HK$'000	*HK$'000*
(a) **Finance costs**		
Imputed interest on promissory note	24,243	8,754
Imputed interest on convertible bonds	246,571	109,118
Total interest expense on financial liabilities not at fair value through profit or loss	270,814	117,872

	2010	**2009**
	HK$'000	*HK$'000*
(b) **Staff costs**		
Contributions to defined contribution retirement plans	89	67
Salaries, wages and other benefits	8,643	7,304
	8,732	7,371

	2010	**2009**
	HK$'000	*HK$'000*
(c) **Other items**		
Depreciation	1,037	720
Auditor's remuneration		
— audit services	500	500
— non-audit services	86	340
Cost of inventories sold	14,591	4,322
Operating lease charges in respect of properties	1,610	1,456

6. Income Tax in the Consolidated Income Statement

(a) Income tax in the consolidated income statement represents:

	Continuing operations	
	2010	**2009**
	HK$'000	*HK$'000*
Hong Kong Profits Tax — provision for the year	24	73

Hong Kong Profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the year (2009: 16.5%).

Taxation for other overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

The corporate income tax rate in the Philippines changed from 35% to 30% with effect on 1 January 2009. No provision for Philippines corporate income tax has been made as the subsidiaries in the Philippines did not have any assessable profits subject to corporate income tax in the Philippines.

Pursuant to the Corporate Income Tax Law of the PRC being effective on 1 January 2008, the PRC income tax rate is unified to 25% for all enterprises.

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

	Continuing operations	
	2010	**2009**
	HK$'000	*HK$'000*
Loss before income tax from continuing operations	(289,951)	(134,121)
Notional tax on loss before taxation, calculated at rates applicable to losses in the countries concerned	(47,886)	(22,130)
Tax effect of non-taxable income	(24)	(51)
Tax effect of non-deductible expenses	45,945	19,518
Tax effect of temporary differences recognised	102	(71)
Tax effect of tax losses utilised	(4)	—
Tax effect of unused tax losses not recognised	1,891	2,807
Actual tax expense	24	73

7. Directors' Remuneration

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

	Directors' fees	Salaries and allowances	Retirement scheme contributions	2010 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Wong Chung Yu, Denny	—	1,200	12	1,212
Kwong Wai Ho, Richard (resigned on 26 January 2010)	—	1,604	12	1,616
Liu Junqing (appointed on 9 December 2009)	—	168	—	168
Non-executive directors				
Yin Mark Teh-min	120	—	—	120
Independent non-executive directors				
Lai Kai Jin, Michael	120	—	—	120
Chan Siu Wing, Raymond	120	—	—	120
Chu Hung Lin, Victor (appointed on 1 June 2009)	100	—	—	100
	460	2,972	24	3,456

	Directors' fees	Salaries and allowances	Retirement scheme contributions	2009 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Wong Chung Yu, Denny (appointed on 20 May 2008)	—	974	11	985
Kwong Wai Ho, Richard	—	1,405	14	1,419
Chin Wai Keung, Richard (resigned on 2 January 2009)	—	743	8	751
So Wing Lok, Jonathan (resigned on 13 October 2008)	390	—	—	390
Wong Hoi Yan, Audrey (resigned on 18 July 2008)	—	167	3	170
Non-executive directors				
Yin Mark Teh-min (appointed on 20 May 2008)	104	—	—	104
Independent non-executive directors				
Lai Kai Jin, Michael	120	—	—	120
Chan Siu Wing, Raymond (appointed on 1 September 2008)	70	—	—	70
Chu Hung Lin, Victor (appointed on 1 June 2009)	—	—	—	—
Shum Man Ching (resigned on 1 October 2008)	50	—	—	50
Chow Shiu Ki (resigned on 20 August 2008)	46	—	—	46
Ng Yat Cheung, JP (appointed on 13 May 2008 and resigned on 1 March 2009)	96	—	—	96
	876	3,289	36	4,201

No emoluments were paid by the Group to the directors or any of the individuals (note 8) of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. No directors of the Company waived or agreed to waive any emoluments during the years ended 31 March 2010 and 2009.

8. Individuals with Highest Emoluments

Out of the five individuals with the highest emoluments, two (2009: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2009: two) individuals are as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Salaries and other emoluments	2,906	1,840
Retirement scheme contributions	36	23
	2,942	1,863

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

	2010	**2009**
	Number of individuals	*Number of individuals*
Nil - HK$1,000,000	2	1
HK$1,000,000 - HK$1,500,000	1	1

9. Discontinued Operations

The sub-licensing of film rights was carried out by Datewell Limited and its subsidiaries (together the "Datewell Group") whilst the business of sale of video products was carried out by Panorama Entertainment Group Limited and its subsidiaries (together the "Panorama Group"). As both Datewell Group and Panorama Group had been suffering persistent losses, on 23 June 2009 and 21 July 2009, the Group entered into two separate sale and purchase agreements with two separate independent third parties to dispose of the entire interests in Datewell Group and the Panorama Group. The disposals of the Datewell Group and the Panorama Group were completed on 29 June 2009 and 15 September 2009, respectively. The sub-licensing of film rights and sales of video products were collectively referred to as "Discontinued Operations". The comparative figures for the income statement for the year ended 31 March 2009 for these two businesses were presented separately as discontinued operations in accordance with HKFRS 5.

(a) An analysis of the results and cash flows of discontinued operations included in the consolidated income statement was as follows:

	Datewell Group	Panorama Group	2010	Datewell Group	Panorama Group	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover (note(c) below)	3,370	1,453	4,823	3,418	9,637	13,055
Costs of sales	(2,793)	(1,223)	(4,016)	(2,384)	(8,887)	(11,271)
Gross profit	577	230	807	1,034	750	1,784
Other revenue (note(c) below)	2	—	2	492	28	520
Other income	55	—	55	222	8,699	8,921
Distribution costs	(1,550)	—	(1,550)	(1,469)	—	(1,469)
Administrative expenses	(3,068)	(768)	(3,836)	(8,763)	(4,830)	(13,593)
Impairment losses (note(d) below)	—	—	—	(19,821)	(4,095)	(23,916)
Loss from operations	(3,984)	(538)	(4,522)	(28,305)	552	(27,753)
Finance costs (note(d) below)	—	(205)	(205)	—	(768)	(768)
Loss before income tax	(3,984)	(743)	(4,727)	(28,305)	(216)	(28,521)
Income tax	—	—	—	(203)	—	(203)
Loss for the year	(3,984)	(743)	(4,727)	(28,508)	(216)	(28,724)
Gain on disposals of subsidiaries (note 10)	5,334	25,204	30,538	—	—	—
Profit/(loss) for the year from discontinued operations	1,350	24,461	25,811	(28,508)	(216)	(28,724)

(b) Analysis of the net cash flows of discontinued operations included in the consolidated statement of cash flows was as follows:

	Datewell Group	**Panorama Group**	**2010**	**Datewell Group**	**Panorama Group**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating cash flows	(5,702)	735	(4,967)	2,593	8,048	10,641
Investing cash flows	—	33	33	(321)	2,992	2,671
Financing cash flows	2,997	(534)	2,463	(17)	(11,748)	(11,765)
Total cash flows	(2,705)	234	(2,471)	2,255	(708)	1,547

(c) Revenue and turnover

	Datewell Group	**Panorama Group**	**2010**	**Datewell Group**	**Panorama Group**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover:						
Sales of video products	—	1,453	1,453	—	9,637	9,637
Sub-licensing of film rights	3,370	—	3,370	3,418	—	3,418
	3,370	1,453	4,823	3,418	9,637	13,055
Other revenue:						
Interest income	2	—	2	5	28	33
Royalty income	—	—	—	487	—	487
	2	—	2	492	28	520
Total revenue	3,372	1,453	4,825	3,910	9,665	13,575

(d) The profit/(loss) before income tax of the discontinued operations is stated after charging:

	Datewell Group	Panorama Group	2010	Datewell Group	Panorama Group	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Finance costs:						
Interest in bank and other borrowings wholly repayable within five years	—	187	187	—	718	718
Finance charges on obligations under finance leases	—	18	18	—	50	50
Total interest expenses on financial liabilities not at fair value through profit or loss	—	205	205	—	768	768
Staff costs:						
Contributions to defined contribution retirement plans	9	—	9	154	48	202
Salaries, wages and other benefits	748	211	959	3,062	1,105	4,167
	757	211	968	3,216	1,153	4,369
Impairment losses on:						
Goodwill	—	—	—	4,259	—	4,259
Intellectual property rights	—	—	—	12,568	—	12,568
Programme rights	—	—	—	632	—	632
Trade receivables	—	—	—	122	3,344	3,466
Other receivables	—	—	—	2,240	751	2,991
	—	—	—	19,821	4,095	23,916

	Datewell Group HK$'000	Panorama Group HK$'000	2010 HK$'000	Datewell Group HK$'000	Panorama Group HK$'000	2009 HK$'000
Other items:						
Amortisation						
— Film rights	—	496	496	—	4,551	4,551
— Intellectual property rights	—	—	—	4,062	—	4,062
— Programme rights	—	—	—	258	—	258
Depreciation						
— Owned assets	166	—	166	282	—	282
— Assets held under finance leases	—	69	69	14	276	290
Cost of inventories sold	2,793	1,223	4,016	1,974	8,887	10,861
Operating lease charges in respect of properties	—	—	—	360	608	968
Loss on disposal of property, plant and equipment	—	—	—	118	—	118
Write-down of inventories	—	—	—	410	—	410

10. Disposals of Subsidiaries

(a) On 23 June 2009, the Group entered into a sale and purchase agreement with an independent third party pursuant to which the entire equity interests of Datewell Group was sold for a consideration of HK$100. The disposal of Datewell Group was completed on 29 June 2009.

(b) On 21 July 2009, the Group entered into a sale and purchase agreement with another independent third party pursuant to which the entire equity interest of Panorama was sold for a consideration of HK$100. The disposal of Panorama Group was completed on 15 September 2009.

(c) Particulars of the two disposal transactions are as follows:

	Datewell Group *HK$'000*	Panorama Group *HK$'000*	Total *HK$'000*
Net liabilities disposed of:			
Property, plant and equipment	317	358	675
Other intangible assets	—	4,520	4,520
Deposit for acquisition of film rights	—	125	125
Films in progress	—	385	385
Inventories	7	1,761	1,768
Trade and other receivables, net	2,729	2,639	5,368
Amount due from ex-owners of Datewell	1,297	—	1,297
Amount due from a related party	—	629	629
Pledged bank deposits	—	2,183	2,183
Cash and bank balances	215	70	285
Trade and other payables	(5,163)	(24,770)	(29,933)
Amounts due to related companies	(1,312)	(2,606)	(3,918)
Other borrowings	(3,000)	—	(3,000)
Bank overdrafts and borrowings	—	(5,857)	(5,857)
Obligations under finance leases	(11)	(575)	(586)
Deferred tax liabilities	—	(4,177)	(4,177)
Taxation payable	(183)	—	(183)
Minority interest	—	37	37
Net liabilities disposed of	(5,104)	(25,278)	(30,382)
Release of exchange reserve upon disposal	(230)	74	(156)
Gain on disposals of subsidiaries (note 9)	(5,334)	(25,204)	(30,538)
Total consideration	—	—	—
Cash and bank balances disposed of	(215)	(70)	(285)
Bank overdrafts disposal of	—	2,141	2,141
Net cash (outflow)/inflow arising from disposals of subsidiaries	(215)	2,071	1,856

The results and cash flows of Datewell Group and Panorama Group for the current year and last year were presented in note 9.

11. Loss attributable to Owners of the Company

The consolidated loss attributable to owners of the Company includes a loss of HK$264,507,000 (2009: loss of HK$137,897,000) which has been dealt with in the financial statements of the Company.

12. Dividends

No payment of dividends has been proposed by the board of directors of the Company for the year ended 31 March 2010 (2009: Nil).

13. Earnings/(Loss) per Share

(a) Basic earnings/(loss) per share

The profit/(loss) and weighted average number of ordinary shares used in the calculation of basic loss per share are as follows:

	2010	2009
	HK$'000	*HK$'000*
From continuing and discontinued operations		
Loss for the year attributable to owners of the Company used in the basic loss per share calculation	(264,164)	(162,918)
From continuing operations		
Loss for the year attributable to owners of the Company used in the basic loss per share calculation	(289,975)	(134,194)
From discontinued operations		
Profit/(loss) for the year attributable to owners of the Company used in the basic earnings/(loss) per share calculation	25,811	(28,724)
Weighted average number of ordinary shares for the purpose of basic loss per share during the year:		
Issued ordinary shares at 1 April	3,546,534	1,932,534
Effect of shares issued under a placement (note 33 (a)(i))	—	109,003
Effect of consideration shares issued (note 33 (a)(ii))	—	141,096
Effect of shares issued upon conversion of convertible bonds (note 33 (a)(iii))	1,927,986	121,918
Weighted average number of ordinary shares for the year	5,474,520	2,304,551

(b) **Diluted earnings/(loss) per share**

The diluted loss per share for (i) continuing and discontinued operations, (ii) continuing operations and (iii) discontinued operations for the years ended 31 March 2010 and 2009 were same as their respective basic earnings/(loss) per share as the exercise price of the outstanding share options and convertible bonds were higher than the average market price per share for both years.

14. Segment Reporting

The Group manages its business by divisions, which are mainly organised by business lines. On first-time adoption of HKFRS 8 "Operating Segments" and in a manner consistent with the way in which information is reported internally to the board of directors (as chief operating decision maker) for the purpose of resource allocation and performance assessment, the Group has identified the following four reportable segments. No operating segments have been aggregated to form the following reportable segments.

Continuing operations:

— Mineral exploration and exploitation (commercial operations has not yet been commenced during the year); and

— Trading of metals.

Discontinued operations (note 9):

— Sub-licensing of film rights; and

— Sales video products

There was no inter-segment sale and transfer for both years (2009: Nil).

Operating segments

	Continuing operations						Discontinued operations						Total	
	Mineral exploration and exploitation		Trading of metals		Sub-Total		Sub-licensing of film rights		Sales of video products		Sub-Total			
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	—	—	14,730	4,287	14,730	4,287	3,370	3,418	1,453	9,637	4,823	13,055	19,553	17,342
Reportable segment revenue	—	—	14,730	4,287	14,730	4,287	3,370	3,418	1,453	9,637	4,823	13,055	19,553	17,342
Reportable segment profit/(loss)	(286,730)	(132,554)	128	(46)	(286,602)	(132,600)	1,350	(28,305)	24,461	(216)	25,811	(28,521)	(260,791)	(161,121)
Other information:														
Depreciation and amortisation	(1,037)	(720)	—	—	(1,037)	(720)	(166)	(4,616)	(565)	(4,827)	(731)	(9,443)	(1,768)	(10,163)
Write down of inventories	—	—	—	—	—	—	—	(410)	—	—	—	(410)	—	(410)
Impairment loss	—	—	—	—	—	—	—	(19,821)	—	(4,095)	—	(23,916)	—	(23,916)
Loss on disposal of property, plant and equipment	—	—	—	—	—	—	—	(118)	—	—	—	(118)	—	(118)
Gain on disposals of subsidiaries	—	—	—	—	—	—	5,334	—	25,204	—	30,538	—	30,538	—
Share of results of associates	(35)	(21)	—	—	(35)	(21)	—	—	—	—	—	—	(35)	(21)
Finance costs	(270,814)	(117,872)	—	—	(270,814)	(117,872)	—	—	(205)	(768)	(205)	(768)	(271,019)	(118,640)
Reportable segment assets	8,442,636	8,451,258	—	—	8,442,636	8,451,258	—	4,698	—	12,748	—	17,446	8,442,636	8,468,704
Addition to non-current segment assets	6,250	1,323	—	—	6,250	1,323	—	316	—	510	—	826	6,250	2,149
Reportable segment liabilities	658,638	1,128,366	—	—	658,638	1,128,366	—	5,819	—	37,300	—	43,119	658,638	1,171,485

Reconciliations of reportable segment revenue, profit or loss, assets and liabilities

	2010	2009
	HK$'000	*HK$'000*
Revenue		
Total reportable segment revenue	19,553	17,342
Segment revenue from discontinued operations	(4,823)	(13,055)
Consolidated turnover — continuing operations	14,730	4,287
Loss		
Segment loss from continuing operations	(286,602)	(132,600)
Segment profit/(loss) from discontinued operations	25,811	(28,521)
Reportable segment loss	(260,791)	(161,121)
Income tax	(24)	(276)
Unallocated other revenue and other net income	1,374	563
Unallocated head office and corporate expenses	(4,723)	(2,084)
Consolidated loss for the year	(264,164)	(162,918)
Assets		
Reportable segments' assets — continuing operations	8,442,636	8,451,258
Assets relating to discontinued operations	—	17,446
Unallocated corporate assets	1,607	1,229
Consolidated total assets	8,444,243	8,469,933
Liabilities		
Reportable segments' liabilities — continuing operations	658,638	1,128,366
Liabilities relating to discontinued operations	—	43,119
Unallocated corporate liabilities	13,426	2,787
Consolidated total liabilities	672,064	1,174,272

Geographical information

	Continuing operations			
	Hong Kong	**PRC**	**Philippines**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2010				
Revenue	14,730	—	—	14,730
Non-current assets	1,373	51	8,435,978	8,437,402
2009				
Revenue	4,287	—	—	4,287
Non-current assets	1,851	—	8,430,361	8,432,212

	Discontinued operations			
	Hong Kong	**PRC**	**Philippines**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2010				
Revenue	4,823	—	—	4,823
Non-current assets	—	—	—	—
2009				
Revenue	8,595	4,460	—	13,055
Non-current assets	6,226	241	—	6,467

Information about major customers

There was no single customer with whom transactions exceeded 10% of the Group's aggregated revenue for both years.

15. Property, Plant and Equipment

The Group

	Continuing operations				
	Leasehold improvements	Furniture and fixtures	Office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1 April 2008	—	990	662	3,778	5,430
Acquisition of subsidiaries (note 40)	—	—	262	—	262
Additions	142	354	163	1,490	2,149
Disposals	—	(249)	—	(550)	(799)
Exchange adjustment	—	(5)	(1)	—	(6)
At 31 March 2009 and 1 April 2009	142	1,090	1,086	4,718	7,036
Additions	—	407	52	—	459
Disposals of subsidiaries (note 10)	(142)	(404)	(658)	(2,968)	(4,172)
Exchange adjustment	—	28	2	—	30
At 31 March 2010	—	1,121	482	1,750	3,353
Accumulated depreciation and impairment loss					
At 1 April 2008	—	377	233	2,835	3,445
Charge for the year	70	296	199	727	1,292
Written back on disposal	—	(131)	—	(550)	(681)
Exchange adjustment	—	(1)	—	—	(1)
At 31 March 2009 and 1 April 2009	70	541	432	3,012	4,055
Charge for the year	40	425	213	594	1,272
Written back on disposals of subsidiaries (note 10)	(110)	(320)	(457)	(2,610)	(3,497)
Exchange adjustment	—	17	1	—	18
At 31 March 2010	—	663	189	996	1,848
Carrying amount					
At 31 March 2010	—	458	293	754	1,505
At 31 March 2009	72	549	654	1,706	2,981

At 31 March 2009, included in the Group's property, plant and equipment were costs of approximately HK$2,829,000 held under finance leases and the related accumulated depreciation was HK$2,385,000. The balances were de-consolidated as a result of disposals of subsidiaries during the year.

16. Payment for Intangible Assets-Mining Claims

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
At 1 April	8,429,879	—
Addition through acquisition of subsidiaries (note 40)	—	8,427,515
Additions	—	2,364
Transfer to exploration and evaluation assets (note 17)	(8,429,879)	—
At 31 March	—	8,429,879

During the current year ended 31 March 2010, the balance of HK$8,429,879,000 was transferred to exploration and evaluation assets (note 17) when the two exploration permit licences were granted to Mogan by DENR/MGB of the Philippines.

On 2 May 2008, the Group entered into an acquisition agreement with Kesterion Investments Limited, which is wholly owned by Ms Eva Wong. Ms Eva Wong is the sister of Wong Chung Yu, Denny and sister-in-law of Yin Mark Teh-min, an executive director and non-executive director of the Company respectively. Pursuant to the agreement, Kesterion Investments Limited agreed to sell and the Group agreed to purchase the entire equity interest in First Pine Enterprises Limited which, at acquisition date on 18 December 2008, holds an indirect 64% equity interest in Mt. Mogan Resources and Development Corporation ("Mogan"), a company incorporated in the Philippines. Mogan holds certain offshore exploration permit applications for mining claims which represent the rights to explore, develop, operate and exploit magnetite sand and other minerals located in certain specified offshore area of approximately 41,094 hectares in the Leyte Gulf and San Pedro Bay off Leyte and Samar Provinces of the Philippines ("Mining Area") subject to the issuance in favour of Mogan of an exploration permit licence and a mineral production sharing agreement in accordance with the Philippine Mining Act 1995 (Republic Act No. 7942), for a consideration of HK$5,700,000,000 satisfied by issuing to Kesterion Investments Limited (i) 500,000,000 consideration shares of the Company; (ii) HK$200,000,000 promissory note with zero coupon rate with a maturity of 1.5 years; (iii) HK$5,110,000,000 convertible bonds with zero coupon rate with a maturity of 10 years of the issue date and (iv) cash paid of HK$40,000,000. The acquisition was completed on 18 December 2008. Details of convertible bonds, promissory note and consideration shares issued are set out in notes 29, 30 and 33(a)(ii), respectively.

Pursuant to the Philippines Mining Act 1995 (Republic Act No.7942), an exploration permit licence, when approved by the Mines and Geosciences Bureau (the "MGB") of the Department of Environment and Natural Resources (the "DENR") of the Philippines, grants the exploration mining applicant the right to conduct exploration for the specified mineral(s) in the specified area(s) within a specified timeframe; whilst a mineral production sharing agreement, when made with and granted by the DENR/MBG acting on behalf of the Government of Philippines, shall provide the applicant with the exclusive rights to conduct mining operations to extract and exploit the pre-agreed upon mineral resource(s) in the specified area(s) for a term of 25 years starting from the execution date and renewable for another term not exceeding 25 years. The technical reserve assessment report prepared by Behre Dolbear Asia, Inc. an international technical expert dated 1 September 2008, indicated that total exploration potential of the two mining claims for the Mining Area will be in the range of 3,300 million to 7,000 million tones of magnetite sand at greater than 5% magnetic fraction. Independent professional valuation on the business value of Mogan was conducted by B.I. Appraisals Limited, a firm of independent professional valuers, on 21 November 2008 in relation to the offshore magnetite mining tenements at approximately US$4,685 million (or US$2,998 million as to 64% of US$4,685 million) covered by the Mining Area of the two exploration permit applications using the discounted cash flow approach, at the discount rate of 19.3%. for the valuation on the basis that the relevant exploration permits and mineral production sharing agreement were granted in favour of Mogan by the relevant authorities of the Philippines. Both Behre Dolbear Asia, Inc and B. I. Appraisals Limited are independent of the Group and its management.

Management considered that the carrying amount of the "Payment for intangible assets - mining claims" can be fully recoverable and no impairment on its carrying amount was necessary at 31 March 2009.

Impairment test — 2009

The Company had engaged an independent professional valuer, Asset Appraisal Limited, to determine the value in use of the mining claims as a cash-generation unit ("CGU") on the basis that the exploration permit(s) and mineral production sharing agreement would be granted by the relevant authorities of the Philippines.

The recoverable amount of the "Payment for intangible assets - mining claims" was determined based on the estimate of the value in use of the Mining Claims on the basis that the exploration permits and mineral production sharing agreement were granted to Mogan. The discounted cash flow approach was adopted by the valuer. The estimated future cash flows of next 20 years were discounted at 16% to calculate the present value of net future cash flows of the mining operations in the Philippines. Key assumptions adopted for the valuation were the estimates on magnetic sand quantities with reference to a technical reserve report prepared by Behre Dolbear Asia, Inc. dated 1 September 2008, prices and operating costs after considering the magnetic content that can be extracted and the expected capital outlay. Based on these evaluations, management was of the view that the recoverable amount of the "Payment for intangible assets - mining claims" exceeded its carrying amount.

17. Exploration and Evaluation Assets

	Exploration rights *HK$'000*	Evaluation expenditure *HK$'000*	Total *HK$'000*
At 1 April 2009	—	—	—
Transfer from payment for intangible assets — mining claims (note 16)	8,429,879	—	8,429,879
Additions	—	5,791	5,791
At 31 March 2010	8,429,879	5,791	8,435,670

On 23 December 2009, two exploration permits, in respect of the 41,094 hectares in the Leyte Gulf and San Pedro Bay off Leyte and Samar Provinces of the Philippines ("Mining Area"), have been granted to Mogan for an initial period of 2 years for conducting the exploration activities in the specified mining area and the Mogan may apply for an extension of the exploration permits for two successive periods of 2 years each in accordance with the Philippine Mining Act 1995 (Republic Act No.7942). Mogan has been conducting exploration programs independently.

On 15 June 2010, MGB of DENR of the Philippines has acknowledged Mogan's submission for application for a mineral production sharing agreement for a portion of the Mining Area with DENR/MGB in accordance with the Philippine Mining Act 1995 (Republic Act No 7942). When the mineral production sharing agreement (i.e. mining permit) is granted by the DENR/MGB of the Philippines, Mogan will be entitled to conduct mining operations in the specified mining area in the Philippines for a term not exceeding 25 years from the execution date and renewable for another term of not exceeding 25 years. At the approval date of these financial statements, the mineral production sharing agreement has not yet been awarded to Mogan.

The directors of the Company believe that Mogan will ultimately be able to obtain the mineral production sharing agreement in respect of the Mining Area from DENR/MGB of the Philippines.

Impairment test — 2010

The Company has engaged an independent professional valuer, Asset Appraisal Limited, to determine the value in use of the exploration and evaluation assets as a cash-generating unit on the basis that the mineral production sharing agreement would be granted by the relevant authorities in the Philippines.

The recoverable amount of exploration and evaluation assets was determined based on the estimate of the value in use of the mining operations in the Philippines, on the basis that the mineral production sharing agreement was granted to Mogan, using the discounted cash flows approach. The estimated cash flows of the next 23 years were discounted at the rate of 22.12% to calculate the present value of the future cash flows of Mogan's mining operations in the Philippines. Key assumptions, apart from the award of the mineral production sharing agreement by DENR/MGB of the Philippines, adopted for the value in use calculations are estimates on magnetic sand quantities with reference to a technical reserve report prepared by Behre Dolbear Asia, Inc. dated 1 September 2008, prices and operating costs after considering the magnetic content that can be extracted and the outlay for capital expenditure. Based on these evaluations, the estimated recoverable amount of exploration and evaluation assets exceeds its carrying amount at 31 March 2010. The directors of the Company are of the opinion that there is no impairment on the exploration and evaluation assets.

18. Other Intangible Assets

	Film rights	Trademark	Programme rights	Intellectual property rights	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1 April 2008	213,947	75	1,288	20,315	235,625
Additions	546	—	—	—	546
Disposals	(6,308)	—	—	—	(6,308)
At 31 March 2009 and 1 April 2009	208,185	75	1,288	20,315	229,863
Disposals of subsidiaries (note 10)	(208,185)	(75)	(1,288)	(20,315)	(229,863)
At 31 March 2010	—	—	—	—	—
Accumulated depreciation and impairment loss					
At 1 April 2008	204,926	75	398	3,685	209,084
Charge for the year	4,551	—	258	4,062	8,871
Written back on disposals	(6,308)	—	—	—	(6,308)
Impairment recognised	—	—	632	12,568	13,200
At 31 March 2009 and 1 April 2009	203,169	75	1,288	20,315	224,847
Charge for the year	496	—	—	—	496
Disposals of subsidiaries (note 10)	(203,665)	(75)	(1,288)	(20,315)	(225,343)
At 31 March 2010	—	—	—	—	—
Carrying amount					
At 31 March 2010	—	—	—	—	—
At 31 March 2009	5,016	—	—	—	5,016

(a) Intangible assets were for the segment of sub-licensing of film rights and sales of video products which were disposed of during the year ended 31 March 2010 (note 10).

(b) Intangible assets were amortised on a straight line basis over their estimated useful lives at follows:

Film rights	2-5 years
Trademark	5 years
Intellectual property rights	5 years
Programme rights	5 years

(c) Impairment of programme rights and intellectual property rights — 2009

Subsequent to 31 March 2009, the intellectual property and programme rights were terminated upon mutual agreement with the licensors. Accordingly, full impairment of the programme rights and intellectual property rights amounting to HK$13,200,000 was recognised as at 31 March 2009 after the assessment of the recoverable amount.

(d) Impairment test on film rights -2009

The recoverable amount of film rights was determined based on value in use and with reference to the past experience which used 5 years cash flow forecast prepared by the management. Based on the calculations, the directors considered no impairment was recognised for the year ended 31 March 2009.

19. Goodwill

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Cost	—	4,259
Less: impairment loss	—	(4,259)
	—	—

The goodwill arose from the acquisition of Datewell Limited and its subsidiaries ("Datewell Group") in the year ended 31 March 2007, attributable to the anticipated synergy effects of the distribution of intellectual property rights and programme rights. Datewell Group was disposed of on 29 June 2009 and the details of the disposal are set out in note 10.

Impairment test for cash-generating unit containing goodwill — 2009

As disclosed in note 10(a), on 29 June 2009, the Group disposed of Datewell Group to an independent third party for a consideration of HK$100. The intellectual property and programme rights were also terminated upon mutual agreement with the licensors on 13 June 2009. An impairment loss of HK$4,259,000 was recognised in profit or loss for the year ended 31 March 2009, as the directors of the Group were of the opinion that the goodwill should be fully impaired after the assessment of the recoverable amount of the relevant business unit to which the goodwill related.

20. Investments Subsidiaries

	The Company	
	2010	**2009**
	HK$'000	*HK$'000*
Unlisted shares, at cost	300	31,672
Less : Impairment loss	—	(31,372)
	300	300
Amounts due from subsidiaries	5,286,030	5,331,827
Less : Impairment loss	—	(39,092)
	5,286,030	5,292,735
	5,286,330	5,293,035

The amounts due from subsidiaries are unsecured, interest free and will not be demanded for repayment and, in substance, form part of the Company's investments in subsidiaries as quasi-equity contributions.

As set out in notes 9 and 10, on 23 June 2009 and 21 July 2009, the Group entered into two separate sale and purchase agreements to dispose of the entire interests of Datewell Group and the Panorama Group, respectively. The disposals of the Datewell Group and the Panorama Group were completed on 29 June 2009 and 15 September 2009, respectively.

For the year ended 31 March 2009, due to the financial turmoil, the market for sales of video products and sub-licensing of film rights was adversely affected, the operating results of Panorama Group for the year ended 31 March 2009 was significantly below that of the approved budget. In this connection, after consideration of the market demands and financial viability of the Panorama Group's business in the foreseeable future, the management had assessed the recoverable amount of the interest in Panorama Group.

Impairments were recognised for the investments in and the amounts due from the Panorama Group and Datewell Group, which were engaged in sales of video products and sub-licence of film rights, with an aggregate amount of HK$27,734,000, of which, HK$5,800,000 and HK$21,934,000 were related to the cost of investments in and the amounts due from these subsidiaries respectively, in the income statement for the year ended 31 March 2009, because the recoverable amounts of these balances were lower than their carrying amounts. Both Datewell Group and Panorama Group had been operating at losses. The provision for impairments were based on assessment of the recoverable amounts for the corresponding cash-generating units, which required an estimation of the value in use of the cash-generating units.

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

		Proportion of ownership interest				
Name	**Place of incorporation/ operation**	**Group's effective holding**	**Held by the Company**	**Held by a subsidiary**	**Issued and paid up capital**	**Principal activities**
Black Sand Enterprises Limited	Hong Kong	100%	100%	—	HK$300,000	Investing holding
Black Sand Resources Trading Limited	British Virgin Islands/ Hong Kong	100%	—	100%	US$1	Trading of metals
Black Sand Securities Trading Limited	Hong Kong	100%	—	100%	HK$1	Trading of securities
寰亞宏華商貿(北京)有限責任公司(note i)	PRC	100%	—	100%	—	Not yet commenced business (note (i))
Service Form Limited (note ii)	Hong Kong	100%	100%	—	HK$1	Dormant
First Pine Enterprises Limited	British Virgin Islands/ Hong Kong	100%	—	100%	US$1	Investment holding
Mt. Mogan Holdings Inc.	British Virgin Islands	100%	—	100%	US$1	Investment holding
Mt. Mogan Resources and Development Corporation	The Philippines	64%	—	64%	PHP2,500,000	Exploration and exploitation of mineral resources

Notes:

(i) The company is a wholly owned foreign enterprise established in the PRC on 4 March 2010 and the initial capital contribution has not yet been made as at the date of this report.

(ii) The company was incorporated on 19 November 2009.

21. Interest in Associates

(a) Share of net assets

	The Group 2010 *HK$'000*	The Group 2009 *HK$'000*
At 1 April	262	—
Addition through acquisition of subsidiaries (note 40)	—	283
Share of results	(35)	(21)
At 31 March	227	262

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or assets of the Group:

Name	Form of business structure	Place of incorporation/ operation	Proportion of ownership interest: Group's effective holding	Held by the Company	Held by a subsidiary	Issued and paid up capital	Principal activity
Belgravia Holdings & Investments, Inc	Incorporated	The Philippines	40%	—	40%	25,000 ordinary shares of PHP100 each	Investment holding
Triple Edge Resources Holdings, Inc	Incorporated	The Philippines	40%	—	40%	25,000 ordinary shares of PHP100 each	Investment holding

The Group's share of the aggregate amounts of the assets, liabilities and results of the associates are as follows:

	2010	2009
	HK$'000	*HK$'000*
Assets	457	493
Liabilities	(230)	(231)
Equity	227	262
Revenue	3	—
Share of results of associates for the year	(35)	(21)

(b) **Amounts due to associates**

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

22. Inventories

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Work in progress	—	1,424
Finished goods	—	936
	—	2,360

At 31 March 2009, inventories were for the operating segments of sub-licensing of film rights and sales of video products which were disposed of during the year ended 31 March 2010 (note 10).

23. Trade and Other Receivables

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	—	12,715	—	—
Less : Allowance for doubtful debts	—	(11,759)	—	—
	—	956	—	—
Deposits	444	5,131	—	—
Prepayments	195	1,822	—	—
Other receivables	472	6,611	37	—
	1,111	13,564	37	—
Less: Allowance for doubtful debts	—	(9,053)	—	—
	1,111	4,511	37	—
	1,111	5,467	37	—

At 31 March 2009, trade receivables were for the operating segments of sub-licensing of film rights and sales of video products which were disposed of during the year ended 31 March 2010 (note 10).

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

(a) **Ageing analysis of trade receivables**

At 31 March 2009, trade receivables were net of allowance of doubtful debts of HK$11,759,000 with the following ageing analysis presented based on invoice date:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Current	—	131
Less than 3 months past due	—	712
3 to 6 months past due	—	93
Over 6 months past due	—	20
	—	956

Trade receivables were due within 60 to 180 days from the date of billing. The Group may, on a case by case basis and after evaluation of the business relationship and creditworthiness of its customers, extend the credit period upon customer's request.

(b) **Impairment of trade receivables**

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

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

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
At 1 April	11,759	13,400
Impairment loss recognised	—	3,466
Reversal of impairment on trade receivables	—	(5,107)
Disposals of subsidiaries (note 10)	(11,759)	—
At 31 March	—	11,759

As at 31 March 2009, the Group's trade receivables HK$11,759,000 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 was expected to be recovered. Consequently, specific allowances for doubtful debt of HK$11,759,000 were recognised at the end of the reporting period. The Group did not hold any collateral over these balances.

(c) **Impairment of other receivables**

Other receivables as at 31 March 2009 were aged more than one year and were fully impaired.

(d) **Trade receivables that are not impaired**

	2010	**2009**
	HK$'000	*HK$'000*
Neither past due nor impaired	—	131
Less than 3 months past due	—	712
3 to 6 months past due	—	93
Over 6 months past due	—	20
	—	956

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 did not hold any collateral over these balances.

24. Pledged Bank Deposits

At 31 March 2009, pledged bank deposits represented deposits pledged with a bank as security for certain bank and other borrowings of a subsidiary, Panorama Distribution Limited. Panorama Distribution Limited was disposed of during the year ended 31 March 2010 (note 10).

25. Held-for-trading Investments

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Listed securities:		
— Equity securities listed in Hong Kong, at fair value	1,463	—

The fair value for the above listed securities were determined by reference to their quoted bid prices at the end of the reporting period.

26. Cash and Bank Balances

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances in the consolidated statement of financial position	4,267	21,150	20	168
Bank overdrafts (note 28)	—	(2,432)	—	—
Cash and bank balances in the consolidated statement of cash flow	4,267	18,718	20	168

27. Trade and other Payables

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	—	8,427	—	—
Accruals	2,520	43	—	—
Withholding tax payable (note a)				
— disposed as part of the discontinued operations	—	2,101	—	—
Receipts in advance (note b)				
— disposed as part of the discontinued operations	—	11,899	—	—
Other payables	6,814	9,983	5,402	2,282
Financial liabilities measured at amortised cost	9,334	32,453	5,402	2,282

Notes:

(a) Withholding tax payable represented the tax withheld on film licenses acquired from foreign licensors at 5.75% on the purchase cost.

(b) Receipts in advance represented one year sub-licensing fees received in advance upon the signing of the sub-licensing agreement with customers.

Included in trade and other payables were trade payables presented based on invoice date with the following ageing analysis as of the end of the reporting period.

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Due within 3 months	—	257
Due over 3 months but within 6 months	—	59
Due over 6 months but within 9 months	—	122
Due over 9 months but within 12 months	—	7,989
	—	8,427

At 31 March 2009, all of the trade payables were for the operating segments of sub-licensing of film rights and sales of video products which were disposed of during the year ended 31 March 2010 (note 10).

28. Bank Overdrafts and Borrowings

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Bank overdrafts	—	2,432
Bank borrowings	—	3,907
	—	6,339

At 31 March 2009, all of the bank overdrafts and borrowings were for the operating segments of sub-licensing of film rights and sales of video products which were disposed of during the year ended 31 March 2010 (note 10).

At the end of the reporting period, the bank overdrafts and borrowings were secured by the followings:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Secured	—	6,339
Secured by		
— bank deposits	—	2,183
— guarantee by a former subsidiary's director (note 38 (g))	—	11,000
	—	13,183

At the end of the reporting period, the bank overdrafts and borrowings were repayable as follows:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
On demand or within 1 year	—	4,520
After 1 year but within 2 years	—	1,819
After 2 years but within 5 years	—	—
	—	1,819
	—	6,339

The range of effective interest rates (which were also the contract interest rates) on the Group's bank borrowings were as follows:

Effective interest rates	**2009**
Fixed rate borrowings	4.05% to 5.38%

All of the Group's borrowings were denominated in Hong Kong dollars.

29. Convertible Bonds

The Group and the Company

On 18 December 2008, the Company entered into subscription agreement with Kesterion Investments Limited ("Kesterion"), which is beneficially owned by Ms. Eva Wong, a sister of Mr. Wong Chung Yu, Denny and sister-in-law of Mr. Yin Mark Teh-min, who are an executive director and non-executive director of the Company respectively, for the issue of convertible bonds with an aggregate principal amount of US$655,128,205 (equivalent to approximately HK$5,110,000,000) (the "Convertible Bonds") in connection with the acquisition of 64% equity interest in Mogan. The Convertible Bonds denominated in US$, which is the functional currency of the Company, are convertible, at the option of the holders, into ordinary shares of the Company at a fixed conversion price of HK$0.70 per conversion share, subject to any anti-dilution adjustments and certain events such as share consolidation, share subdivision, capitalization issue, capital distribution, right issue and other equity or equity or equity derivative issued at any time after the issue date. The Convertible Bonds are unsecured and non-interest bearing and will mature on 18 December 2018 and can be redeemed, using an agreed fixed exchange rate of US$1 = HK$7.8. in part(s) by the Company at any time before the maturity date. If the Convertible Bonds are not converted, they will be redeemed on 18 December 2018, using an agreed fixed exchange rate of US$1 = HK$7.8. The total number of shares to be issued on conversion of the Convertible Bonds will be determined by dividing the principal amount of bonds to be converted (using an agreed fixed exchange rate of US$1= HK$7.8) by the conversion price HK$0.70 in effect at the conversion date.

As the functional currency of the Company is US$, the conversion option of the Convertible Bonds denominated in US$ will result in settlement by the exchange of a fixed amount of cash for a fixed number of equity instruments in accordance with HKAS32 and 39. The net proceeds received from the issue of the Convertible Bonds have been split between the liability component and equity component. The fair value of the liability component was determined as of the date of issue by an independent professional valuer, BMI Appraisals Limited, using the market rate for an equivalent non-convertible bond. The effective interest rate of the liability component is 17.7% per annum. The liability component, after the initial recognition, is carried at amortised cost, calculated using the effective interest method at the rate of 17.7% per annum. The residual amount of the Convertible Bonds at the initial recognition represents the value of the equity conversion component.

During the year ended 31 March 2010, total principal amount of US$363,910,256 (equivalent to HK$2,838,500,000 at the agreed fixed exchange rate of US$1 = HK$7.8) (2009: US$89,743,590 equivalent to HK$700,000,000 at the agreed fixed exchange rate of US$1 = HK$7.8) were converted into 4,055,000,000 (2009: 1,000,000,000) new ordinary shares of the Company of HK$0.01 each as referred to note 33 (a)(iii) to the financial statements. Outstanding principal amounts of the Convertible Bonds as at 31 March 2010 and 2009 were US$201,474,359 (equivalent to approximately HK$1,571,500,000) and US$565,384,615 (equivalent to approximately HK$4,410,000,000) respectively.

The movements of the liability component and equity component of the Convertible Bonds for both years are as follows:

	Liability component *HK$'000*	Equity conversion component *HK$'000*	Principal amount *HK$'000*
At 1 April 2008	—	—	
Issue of Convertible Bonds (note 40)	1,001,172	4,108,828	5,110,000
Effective interest recognised (note 5(a))	109,118	—	—
Converted during the year (note 33 (a)(iii))	(146,255)	(562,853)	(700,000)
At 31 March 2009	964,035	3,545,975	4,410,000
Effective interest recognised (note 5(a))	246,571	—	—
Converted during the year (note 33 (a)(iii))	(740,782)	(2,282,370)	(2,838,500)
At 31 March 2010	469,824	1,263,605	1,571,500

The interest charged for the year is calculated by applying an effective interest rate of 17.7% (2009: 17.7%) to the liability component.

30. Promissory Note

The Group

On 18 December 2008, Black Sand Enterprises Limited ("BSEL"), a wholly-owned subsidiary of the Company, issued HK$200,000,000 unsecured redeemable promissory note with zero coupon rate in connection with the acquisition of the 64% equity interest in Mogan (see note 40). The promissory note is repayable in 4 instalments over 1 year from the date of issue, with the first instalment falling due at the end of 3 months after the date of issue. BSEL has the unconditional right to defer all instalment payments until the final instalment date on 18 June 2010. BSEL has the unconditional right to redeem the promissory note prior to the maturity date by serving a written notice to the note-holder. The fair value of promissory note was determined at HK$161,756,183 as at the issue date, based on the independent valuation performed by an independent valuer, BMI Appraisals Limited. The effective interest rate of the promissory note is determined to be 15.20% per annum. The promissory note is carried at amortised cost, using the effective interest method and at the rate of 15.20% per annum, until extinguishment or redemption. During the year ended 31 March 2009, BSEL redeemed HK$10,000,000 of the promissory note.

At 18 December 2009, BSEL issued a notice to the promissory note holder for the deferral of all instalment payments to the final instalment date on 18 June 2010. The promissory note has been due for full repayment as at the date of this report. According to the Debt Restructuring Agreement dated 14 May 2010 entered into among the Company, BSEL and Kesterion, Kesterion, the note holder, has agreed that, pending completion of the Debt Restructuring Agreement, it will not enforce or exercise any of its rights or remedies or take any legal proceedings against the Company or BSEL.

Movements of the carrying amount of the promissory note, carried at amortised cost, during the year ended 31 March 2010 and 2009 are set out below:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
At 1 April	160,510	—
Issue of promissory note (note 40)	—	161,756
Redemption	—	(10,000)
Imputed interest charged (note 5(a))	24,243	8,754
At 31 March	184,753	160,510

The promissory note is classified in the consolidated statement of financial position at the end of the reporting period as follows:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Current liabilities	184,753	—
Non-current liabilities	—	160,510
	184,753	160,510

Outstanding principal amount of the promissory note as at 31 March 2010 was HK$190,000,000 (2009: HK$190,000,000).

31. Obligations under Finance Leases

At 31 March 2010, the Group had no obligations under finance leases:

	2010		2009	
	Present value of the minimum lease payments	**Total minimum lease payments**	**Present value of the minimum lease payments**	**Total minimum lease payments**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	—	—	424	464
After 1 year but within 2 years	—	—	164	178
After 2 years but within 5 years	—	—	138	150
	—	—	302	328
	—	—	726	792
Less: total future finance charges		—		(66)
Present value of lease obligations		—		726

At 31 March 2009, obligations under finance leases were for the operating segments of sub-licensing of film rights and sales of video products which were disposed of during the year ended 31 March 2010 (note 10).

The Group's obligations under finance leases were secured by the lessor's charge over the leased assets (note 15).

32. Income Tax in the Statement of Financial Position

(a) Current taxation in the statement of financial position represents:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Hong Kong Profits Tax	96	—
PRC income tax	—	296
	96	296

(b) Deferred tax assets and liabilities recognised

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

	The Group		
	Depreciation allowances in excess of the related depreciation	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax arising from:			
At 1 April 2009	12,652	(8,475)	4,177
Disposals of subsidiaries (note 10)	(12,652)	8,475	(4,177)
At 31 March 2010	—	—	—

Representing:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Deferred tax liability recognised in the statement of financial position	—	12,652
Deferred tax asset recognised in the statement of financial position	—	(8,475)
	—	4,177

At 31 March 2009, deferred tax assets and liabilities were for the operating segments of sub-licensing of film rights and sales of video products which were disposed of during the year ended 31 March 2010 (note 10).

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

At the end of the reporting period, the Group has unused tax losses of HK$29,429,943 (2009: HK$36,164,434) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of these tax losses 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.

33. Share Capital

	Note	**No. of ordinary shares of HK$0.01 each**	**Nominal value of ordinary shares** *HK$'000*
Authorised ordinary shares:			
At 1 April 2008, 31 March 2009 and 31 March 2010		20,000,000,000	200,000
Issued and fully paid ordinary shares:			
At 1 April 2008		1,932,534,023	19,325
Issue of new shares			
— placing of shares	(a)(i)	114,000,000	1,140
— acquisition of subsidiaries	(a)(ii)	500,000,000	5,000
— conversion of convertible bonds	(a)(iii)	1,000,000,000	10,000
At 31 March 2009 and 1 April 2009		3,546,534,023	35,465
Issue of new shares			
— conversion of convertible bonds	(a)(iii)	4,055,000,000	40,550
At 31 March 2010		7,601,534,023	76,015

(a) **Issue of share capital**

(i) *Issue of new shares under placement*

On 17 April 2008, the Company issued 114,000,000 ordinary shares with a par value of HK$0.01 each, at a price of HK$0.44 per share by way of placement to Nice Hill Investments Limited in which a former executive director, Mr. Chin Wai Keung, Richard was the sole beneficial owner. Net proceeds from such issue amounted to HK$49,250,000 (after offsetting issue expenses of HK$910,000) out of which HK$1,140,000 and HK$48,110,000 were recorded in share capital and share premium, respectively.

(ii) *Issue of new shares for acquisition of subsidiaries*

On 18 December 2008, the Company issued 500,000,000 ordinary shares with a par value of HK$0.01 each, at a price of HK$0.14 per share, being the closing market price at completion date, as part of the consideration for the acquisition of 64% equity interest in First Pine Enterprises Limited as referred to note 40 to the financial statements. HK$5,000,000 and HK$65,000,000 were recorded in share capital and share premium respectively.

(iii) *Issue of new shares under conversion of convertible bonds*

During the year, 4,055,000,000 (2009: 1,000,000,000) ordinary shares with a par value of HK$0.01 each, were issued at HK$0.70 per share as a result of the conversion of convertible bonds of US$363,910,256 (equivalent to HK$2,838,500,000) (2009: US$89,743,590 (equivalent to HK$700,000,000) at the fixed exchange rate of US$1 = HK$7.8) by the convertible bond holders as referred to note 29 to the financial statements. HK$40,550,000 (2009: HK$10,000,000) and HK$2,982,602,000 (2009: HK$699,108,000) were recorded in share capital and share premium, respectively. Liabilities component of HK$740,782,000 (2009: HK$146,255,000) and equity conversion component of HK$2,282,370,000 (2009: HK$562,853,000) were derecognised upon conversion of these bonds as referred to in note 29.

All of the shares issued during the years ended 31 March 2009 and 2010 rank pari passu with the then existing shares in all respects.

(b) **Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including borrowings and trade and other payables, as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

The net debt-to-adjusted capital ratio at 31 March 2010 and 2009 was as follows:

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Current liabilities		
— Trade and other payables	9,334	32,453
— Amount due to a related company	—	2,600
— Amounts due to related parties	—	3,063
— Amounts due to associates	57	73
— Shareholder's loan	8,000	—
— Obligations under finance leases	—	424
— Bank overdrafts and borrowings	—	4,520
— Promissory note	184,753	—
	202,144	43,133
Non-current liabilities		
— Convertible bonds	469,824	964,035
— Promissory note	—	160,510
— Obligations under finance leases	—	302
— Bank overdrafts and borrowings	—	1,819
	469,824	1,126,666
Total debt	671,968	1,169,799
Less: Cash and bank balances and pledged bank deposits	(4,267)	(23,333)
Net debt	667,701	1,146,466
Total capital	7,772,179	7,295,661
Net debt-to-capital ratio	8.6%	15.7%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

34. Reserves

(a) The Group

	Share premium	Special reserve	Exchange reserve	Share option reserve	Convertible bond equity reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2008	105,173	10,440	83	320	—	(84,609)	31,407
Equity component of convertible bonds (note 29)	—	—	—	—	4,108,828	—	4,108,828
Issue of new shares							
- placing of shares (note 33 (a)(i))	48,110	—	—	—	—	—	48,110
- acquisition of subsidiaries (note 33 (a)(ii))	65,000	—	—	—	—	—	65,000
- conversion of convertible bonds (note 29 and (note 33 (a)(iii))	699,108	—	—	—	(562,853)	—	136,255
Total comprehensive loss for the year	—	—	73	—	—	(162,860)	(162,787)
At 31 March 2009 and 1 April 2009	917,391	10,440	156	320	3,545,975	(247,469)	4,226,813
Issue of new shares							
- conversion of convertible bonds (note 29 and (note 33 (a)(iii))	2,982,602	—	—	—	(2,282,370)	—	700,232
Disposals of subsidiaries (note 10)	—	—	(156)	—	—	—	(156)
Total comprehensive loss for the year	—	—	19	—	—	(263,794)	(263,775)
At 31 March 2010	3,899,993	10,440	19	320	1,263,605	(511,263)	4,663,114

(b) **The Company**

	Share premium HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	Convertible bond equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2008	105,173	320	25,571	—	(59,939)	71,125
Equity component of convertible bonds (note 29)	—	—	—	4,108,828	—	4,108,828
Issue of new shares						
- placing of shares (note 33 (a)(i))	48,110	—	—	—	—	48,110
- acquisition of subsidiaries (note 33 (a)(ii))	65,000	—	—	—	—	65,000
- conversion of convertible bonds (note 29 and (note 33 (a)(iii))	699,108	—	—	(562,853)	—	136,255
Total comprehensive loss for the year	—	—	—	—	(137,897)	(137,897)
At 31 March 2009 and 1 April 2009	917,391	320	25,571	3,545,975	(197,836)	4,291,421
Issue of new shares						
- conversion of convertible bonds (note 33 (a)(iii))	2,982,602	—	—	(2,282,370)	—	700,232
Total comprehensive loss for the year	—	—	—	—	(264,507)	(264,507)
At 31 March 2010	3,899,993	320	25,571	1,263,605	(462,343)	4,727,146

(c) **Nature and purpose of reserves**

(i) *Share premium*

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) *Special reserve*

The special reserve of the Group represents the difference between the nominal value of the issued share of subsidiaries acquired over the nominal value of the shares issued by the Company pursuant to the Group Reorganisation to rationalise the group structure in preparation of the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

(iii) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations into the presentation currency. The reserve is dealt with in accordance with the accounting policies in note 2(aa).

(iv) *Share option reserve*

The share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to the eligible participants recognised in accordance with the accounting policy adopted for share-based payments in note 2(w).

(v) *Contributed surplus*

The contributed surplus of the Company represents the excess of the net assets of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the Company's shares issued in exchange.

(vi) *Convertible bond equity reserve*

The value of unexercised equity component of convertible notes issued by the Company is recognised in accordance with the accounting policy adopted for convertible notes in note 2(s).

(vii) *Distributability of reserves*

At 31 March 2010, the aggregate amount of reserves available for distribution to equity shareholders of the Company was subject to the conditions on the share premium account as stated above.

35. Equity settled Share-Based Transactions

The Share Option Scheme was adopted on 25 April 2002 for the primary purpose of providing incentives and to recognise the contribution of the eligible participants to the growth of the Group and will expire on 24 April 2012. Under the Share Option Scheme, the Board may grant options to eligible full-time or part-time employees, including any executive, non-executive and independent non-executive Directors, and consultants or advisers of the Company and/or any of its subsidiaries.

The total number of shares in respect of which options may be granted under the Share Option Scheme, and any other option schemes is not permitted to exceed 30% of the issued share capital of the Company from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the issued share capital of the Company without prior approval from the Company's shareholders.

Options granted must be taken up within three days of the date of grant, upon payment of HK$1 per grant.

Options may be exercised at any time during a period to be notified by the board of Directors (the "Board") upon the grant of options provided that the option period shall not exceed 10 years from the date of grant of the options. No minimum period for which an option must be held is required. The exercise price, which is determined by the Board is the highest of: (i) the closing price per share on the date of grant; (ii) the average closing price per share for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

(a) The terms and conditions of the grant that existed during the two years ended 31 March 2010 and 2009 are as follows, whereby all options are settled by physical delivery of shares:

Options granted to consultants	**Exercise price** *HK$*	**Number of shares issuable under options**	**Share issued**	**Vesting conditions**	**Contractual life of options**
— on 6 March 2007	0.188	5,000,000	—	Three days from the date of grant	10 years

(b) The number and weighted average exercise prices of share options are as follows:

	2010		2009	
	Weighted average exercise price	Number of shares issuable under options granted	Weighted average exercise price	Number of shares issuable under options granted
Outstanding at the beginning of the year	HK$0.188	5,000,000	HK$0.188	5,000,000
Granted during the year	—	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Expired during the year	—	—	—	—
Outstanding at the end of the year	HK$0.188	5,000,000	HK$0.188	5,000,000
Exercisable at the end of the year	HK$0.188	5,000,000	HK$0.188	5,000,000

The options outstanding at 31 March 2010 had an exercise price of HK$0.188 (2009: HK$0.188) and weighted average remaining contractual life of 7 years (2009: 8 years).

36. Financial Risk Management and Fair Values

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

(a) **Credit risk**

(i) *Trade and other receivables*

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 30 to 180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. Further quantitative analysis in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 23.

At 31 March 2010, credit risk exposure of the Group is insignificant. At 31 March 2009, the Group has a certain concentration of credit risk as 11% and 39% of the total trade receivables were due from the Group's largest customer and the five largest customers as at 31 March 2009, respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group to credit risk.

(ii) *Deposits with banks*

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings. Given the high credit ratings of the bank, management does not expect any counterparty to fail to meet its obligations.

(b) **Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

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 term.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative 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 date of statement of financial position) and the earliest date the Group and the Company can be required to pay:

The Group

		Contractual undiscounted cash outflow				
		2010				
	Carrying amount	**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**	**Total contractual undiscounted cash outflow**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	9,334	9,334	—	—	—	9,334
Amounts due to associates	57	57	—	—	—	57
Shareholder's loan	8,000	8,000	—	—	—	8,000
Promissory note	184,753	190,000	—	—	—	190,000
Convertible bonds	469,824	—	—	—	1,571,500	1,571,500
	671,968	207,391	—	—	1,571,500	1,778,891

The Group

		Contractual undiscounted cash outflow				
		2009				
	Carrying amount	**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**	**Total contractual undiscounted cash outflow**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	32,453	32,453	—	—	—	32,453
Amounts due to associates	73	73	—	—	—	73
Amounts due to related parties/ companies	5,663	5,663	—	—	—	5,663
Obligation under finance lease	726	464	178	150	—	792
Bank overdrafts and borrowings	6,339	4,746	1,910	—	—	6,656
Promissory note	160,510	—	190,000	—	—	190,000
Convertible bonds	964,035	—	—	—	4,410,000	4,410,000
	1,169,799	43,399	192,088	150	4,410,000	4,645,637

The Company

	Contractual undiscounted cash flow					
	2010					
	Carrying amount	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	Total contractual undiscounted cash outflow
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Shareholder's loan	8,000	8,000	—	—	—	8,000
Other payables	5,402	5,402	—	—	—	5,402
Convertible bonds	469,824	—	—	—	1,571,500	1,571,500
	483,226	13,402	—	—	1,571,500	1,584,902

The Company

	Contractual undiscounted cash flow					
	2009					
	Carrying amount	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	Total contractual undiscounted cash outflow
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	2,282	2,282	—	—	—	2,282
Convertible bonds	964,035	—	—	—	4,410,000	4,410,000
	966,317	2,282	—	—	4,410,000	4,412,282

(c) **Interest rate risk**

(i) *Interest rate profile*

The Group's interest rate risk arises primarily from bank borrowings and deposits at bank. All of the bank loans of the Group were bearing prevailing market interest rates and were sensitive to any change in market interest rates. The Group did not use derivative financial instruments to hedge its debts obligations.

The Group manages the risk by setting roll-over periods of various duration on its revolving loans after due consideration of market conditions and expectation of future interest rate movements. However, the Group does not expect any significant change in interest rates which might materially affect the Group's results of operations.

The following table details the interest rate profile of the Group's and the Company's interest-generating financial assets and interest-bearing financial liabilities at the end of the reporting period:

The Group

	2010		**2009**	
	Effective interest rate	**HK$'000**	**Effective interest rate**	**HK$'000**
Pledged bank deposits	—	—	0.20%	2,183
Cash and bank balances	0.12%	4,267	0.05%	21,150
Bank loans	—	—	4.05%	3,907
Bank overdrafts	—	—	5.38%	2,432

The Company

	2010		**2009**	
	Effective interest rate	**HK$'000**	**Effective interest rate**	**HK$'000**
Cash and bank balances	0.12%	20	0.05%	168

(ii) *Sensitivity analysis*

At 31March 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's loss after income tax and accumulated losses for the year by approximately HK$43,000 (2009: HK$297,000). Other components of equity would not be affected (2009: Nil) by the changes in interest rates.

The above sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that day. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual date of statement of financial position. The analysis is performed on the same basis for 2009.

(d) **Currency risk**

The majority of the transactions of the Group were denominated in Hong Kong Dollar ("HK$") and United States Dollar ("US$") which is pegged with HK$ at a designated range such that the exposure on fluctuation of foreign currency rate is limited. Given that the foreign currency exposure is limited, sensitivity analysis to changes in foreign currency rates is not presented thereof.

(e) **Other price risk**

The Group is exposed to equity price changes arising from equity investments classified as held-for-trading investments.

The Group's listed investments are listed on the Stock Exchange of Hong Kong. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the Index and other industry indicators, as well as the Group's liquidity needs.

At 31 March 2010, it is estimated that an increase/(decrease) of 10% (2009: Nil%) in the relevant stock market index (for listed investments) with all other variables held constant, would have increased/decreased the Group's loss after tax (and accumulated losses) as follows:

	Effect on loss after income tax and accumulated losses	
	2010	**2009**
	HK$'000	*HK$'000*
Change in the relevant equity price risk variable:		
Increase	187	—
Decrease	199	—

The sensitivity analysis indicates the instantaneous change in the Group's loss after tax (and accumulated losses) that would arise assuming that the changes in the stock market index had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables and that all other variables remain constant.

(f) **Fair values**

(i) *Financial instruments carried at fair value*

The following table provides an analysis of financial instruments that are measured at fair value at the end of the reporting period, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

— Level 1: fair values measured based using quoted prices (unadjusted) in active markets for identical assets or liabilities.

— Level 2: fair values measured on valuation techniques to which all significant inputs are directly or indirectly based on observable market data.

— Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data.

At 31 March 2010, the Group held trading securities carried at fair value of HK$1,463,000 which are recognised as listed financial assets. These listed financial instruments fall into Level 1 of the fair value hierarchy described above.

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

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

(g) **Estimation of fair values**

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

(i) *Securities*

Fair value for quoted equity investments is based on listed market price at the end of the reporting period.

(ii) *Cash and cash equivalents, pledged deposits, trade and other receivables, and trade and other payables*

The carrying values of these financial assets and liabilities approximate their fair values because of the short maturities of these instruments.

(iii) *Interest-bearing loans and borrowings*

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

37. Accounting Estimates and Judgements

In the process of applying the Group's accounting policies which are described in note 2, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the date of statement of financial position, that may have s significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) **Impairment of property, plant and equipment**

The Group assesses annually whether property, plant and equipment have suffered any impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amounts of assets or cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates, such as discount rates, future profitability and growth rates. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(b) **Impairment of exploration and evaluation assets**

In determining whether the Group's exploration and evaluation assets are impaired, management has to exercise judgement in the area of asset impairment, particularly in assessing (i) whether the Group is able to obtain the right to exploit in the specific mining site; (ii) whether the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full from successful development or by sale. In any such cases, the Group shall perform an impairment test in accordance with the accounting policy state in note 2 (n).

(c) **Impairment of investments in subsidiaries**

The Group makes impairment on investments in subsidiaries when the related recoverable amounts of the investments in subsidiaries, with reference to the net asset values of the subsidiaries, are estimated to be less than their carrying amounts.

(d) **Impairment of receivables**

Impairment of receivables is made based on an assessment of the recoverability of receivables. The identification of impairment requires management's judgements and estimates. When the actual outcome is different from the original estimates, such differences will impact the carrying amounts of the receivables and impairment loss in the period in which such estimate has been changed.

(e) **Provision for rehabilitation**

Provision for rehabilitation is based on estimates of future expenditures incurred by management to undertake rehabilitation and restoration work to magnetite mine which are discounted at a rate reflecting the term and nature of the obligation. Significant estimates and assumptions are made in determining the provision for rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases and changes in the discount rate. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at end of the reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the consolidated statement of financial position by adjusting the rehabilitation asset and liability. At 31 March 2010, the directors of the Group estimated that no provision for rehabilitation is required (2009: Nil).

(f) **Liability component of convertible bonds and promissory note**

The fair value of the liability component of the convertible bonds and the promissory note, at their initial recognition, are estimated by independent professional valuer based on transactions of similar financial instruments in the market which generally represent the best estimate of the market value.

(g) **Income taxes and deferred taxation**

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the provision for taxation. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred taxation provisions in the financial period in which such determination is made.

Deferred tax assets relating to certain temporary differences and certain tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences will impact the recognition of deferred tax and tax in the periods in which such estimate is changed.

(h) **Functional currency**

The Group has adopted US$ as the functional currency, which is the currency of the primary economic environment in which the Group operates. The determination of functional currency requires significant judgement and the adoption of US$ as functional currency of the Group has affected the results and the application of accounting treatment of the Group.

(i) **Environmental contingencies**

The Group has not incurred any significant expenditure for environment remediation and is currently not involved in any environmental remediation. In addition, the Group has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The Government of Philippines, 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, concentrators and smelting plants whether they are 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 costs 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 be reasonably estimated at present, and could be material.

38. Related Party Transactions

During the years ended 31 March 2010 and 2009, the directors are of the view that the following companies are related parties to the Group:

Name of the related party	**Relationship**
Pacific Glory Industries Limited	Shareholder of a former subsidiary
Panorama Entertainment Holdings Limited	A director of a former subsidiary, Fung Yu Hing, and Leung Siu Kuen have beneficial interest
Fung Yu Hing	Director of a former subsidiary
Leung Siu Kuen	Director of a former subsidiary
Allan Fung Assets Limited	A director of a former subsidiary, Fung Yu Hing, has beneficial interest
So Wing Lok	Ex-director of the Company
Lo Wing Keung	Ex-director of the Company

(a) **Amount due from a related party**

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
— Leung Siu Kuen	—	84

The amount due from a related party was of non-trade nature, unsecured, interest free and repayable on demand.

(b) **Amount due from a related company**

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
— Panorama Entertainment Holdings Limited	—	10

The amount due from a related company was of non-trade nature, unsecured, interest free and repayable on demand.

(c) **Amount due to a related company**

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
— Pacific Glory Industries Limited	—	2,600

The amount due to a related company was of non-trade nature, unsecured, interest-free and repayable on demand.

(d) **Amounts due to related parties**

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
— So Wing Lok	—	1,817
— Lo Wing Keung	—	390
— Fung Yu Hung	—	856
	—	3,063

The amounts due to related parties were of non-trade nature, unsecured, interest-free and repayable on demand.

(e) **Shareholder's loan**

	The Group and The Company	
	2010	**2009**
	HK$'000	*HK$'000*
Kesterion Investments Limited	8,000	—

Shareholder's loan is unsecured, interest-free and repayable upon completion of the Debt Restructuring Agreement as referred to in note 43 (b).

(f) **Key management personnel remuneration**

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

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Short-term employee benefits	5,218	4,784
Post-employment benefits	48	51
	5,266	4,835

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

(g) **Personnel guarantees and securities provided by a former subsidiary's directors — 2009**

During the year ended 31 March 2009, directors of the then subsidiary, Panorama Distributions Company Limited, provided personal guarantees and securities to banks and financial institution to the extent HK$11,000,000 to secure credit facilities granted to the former subsidiary of the Company as follows:

(i) Certain properties owned by a former subsidiary's directors; and

(ii) Certain properties owned by companies in which the former subsidiary's directors had beneficial interests.

On 15 September 2009, the subsidiary was disposed of as referred to notes 9 and 10.

39. Commitments and Contingencies

(a) Operating lease commitments

At 31 March 2010, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of premises are payable as follows:

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	1,263	1,221	—	—
After one year but within five years	2,315	55	—	—
	3,578	1,276	—	—

(b) Capital commitments

	The Group	
	2010	**2009**
	HK$'000	*HK$'000*
Contracted for but not provided for in the financial statements		
— Film rights	—	520
— Exploration and evaluation assets	1,463	—
	1,463	520

The Company had no material capital commitments as at 31 March 2010 (2009: Nil).

(c) Contingencies

The Group and the Company had no material contingent liabilities at the end of reporting period (2009: Nil).

40. Purchase of Assets and Liabilities through Acquisition of Subsidiary — 2009

On 18 December 2008, the Group acquired certain offshore exploration permit applications for mining claims in Philippines (see note 16 to the financial statements) and its related assets and liabilities for a total consideration of HK$5,700 million which was satisfied by (i) cash of HK$40 million, (ii) HK$350 million by the allotment and issue of 500,000,000 consideration shares of the Company, (iii) HK$200,000,000 promissory note with zero coupon rate and (iv) HK$5,110,000,000 convertible bonds with zero coupon rate. The purchase was by way of acquisition of the entire issued share capital of First Pine Enterprises Limited ("First Pine") which indirectly holds 64% equity interest of Mt. Mogan Resources and Development Corporation ("Mogan"). This transaction had been accounted for as a purchase of assets and liabilities. First Pine and Mogan had not yet commenced the mining business at the date of acquisition.

	2009
	HK$'000
Net assets acquired:	
Property, plant and equipment	262
Interest in associates	283
Payment for intangible assets - mining claims (note (16))	8,427,515
Other receivables	209
Cash at bank	162
Other payables	(1,936)
	8,426,495
Less: minority interest	(3,033,421)
	5,393,074
Total consideration satisfied by:	
— Cash paid	40,000
— Consideration shares of the Company - at fair value (note 33 (a)(ii))	70,000
— Promissory note (note 30)	161,756
— Convertible bonds (note 29)	5,110,000
— Direct expenses relating to the acquisition	11,318
	5,393,074

	2009
	HK$'000
Net cash outflow arising on acquisition:	
Cash acquired	162
Consideration paid in cash	(40,000)
Direct expenses relating to the acquisition	(11,318)
	(51,156)

The fair value of 500,000,000 consideration shares issued for the acquisition of First Pine was determined at HK$0.14 each, being the closing market price on acquisition date on 18 December 2008.

41. Deregistration of a Subsidiary — 2009

Upon deregistration of Go Film Distribution Limited on 24 October 2008, in which 60% of its issued capital was held by Scenerama Company Limited, minority interest of HK$5,172,000 was derecognised during the year ended 31 March 2009.

42. Convertible Loan Agreement

On 30 September 2008, the Company and its wholly-owned subsidiary, Black Sand Enterprises Limited (as borrower) entered into a convertible loan agreement with an independent third party which had agreed to provide a conditional credit facility of Euro 200 million ("Convertible Loan"). The loan will bear interest at the rate of 3% per annum and will be unsecured and repayable together with all accrued interest, upon the third anniversary of the drawdown date. Pursuant to the agreement, the lender may, at any time after the drawdown date but before the third anniversary of the drawdown date, convert the amount outstanding under the loan up to 2,000,000,000 new shares of the Company at a rate of Euro 0.1 per share equivalent to HK$1.1168 per share, based on the exchange rate of Euro: HK$11.1678) at a fixed conversion rate o1 Euro 1: HK$11.1678.

On 30 September 2009, the Company agreed with the lender to terminate the convertible loan agreement.

43. Events after the Reporting Period

Subsequent to the end of the reporting period, the Group and the Company had the following post balance sheet events:

(a) **Termination of proposed share consolidation and proposed open offer**

On 8 April 2010, the Company had decided to terminate the proposed share consolidation scheme pursuant to which the Company proposed to consolidate every 20 existing shares of HK$0.01 each into one adjusted share of HK$0.20 each, and the proposed open offer by issuing 1,520,306,804 new adjusted shares of HK$0.20 each.

(b) **Investment Agreement and Debt Restructuring Agreement involving the issue of subscription shares and convertible bonds**

On 9 April 2010, a conditional Investment Agreement (as amended and supplemented on 14 May 2010) was entered between the Company and an independent third party, China Raybo International Corp. Ltd, ("the Investor") pursuant to which, the Company will issue to the Investor (i) 10,000,000,000 new shares of HK$0.01 each at the subscription price of HK$0.25 each, for an aggregate consideration of HK$2,500 million, and (ii) three-year unsecured zero coupon rate convertible bonds with an aggregate principal amount of approximately US$64 million (equivalent to approximately HK$500 million). Aggregate net proceeds from the issue of subscription shares and the new convertible bonds will be approximately HK$2,970 million, out of which approximately HK$1,769.5 million will be used for the full settlement of the aggregate amounts due from the Company to a substantial shareholder, Kesterion comprising promissory note with principal amount of HK$190 million (note 30) above, convertible bonds with principal amount of HK$1,571.5 million (note 29) and short-term loan of HK$8 million (note 38(e)) ("the Kesterion Existing Debts") under the Debt Restructuring Agreement dated 14 May 2010 entered into among the Company, BSEL and Kesterion. The balance of the net proceeds of approximately HK$1,200.5 million will be used for financing the mining operations in the Philippines and as general working capital of the Group.

The completion of the Investment Agreement will be subject to fulfillment of certain pre-conditions, including the followings:

— the passing of the required resolutions by the Independent Shareholders by way of a poll at the EGM approving: (i) the Investment Agreement and the transactions contemplated thereunder; (ii) the Whitewash Waiver; (iii) the settlement of the Kesterion Existing Debts as mentioned above in cash which constitutes a special deal ("Special Deal"); (iv) the grant of a special mandate from the Shareholders at the EGM to allot and issue the Subscription Shares and the Conversion Shares; (v) the appointment of three persons nominated by the Investor as Directors.

— the passing of the required resolutions by the Shareholders by way of poll at the EGM approving the increase in the authorised share capital of the Company;

— the Stock Exchange has granted the listing of, and permission to deal in, the Subscription Shares and the Conversion Shares that will be allotted and issued by the Company, the Whitewash Waiver and the Special Deal;

— the Investor has satisfactorily completed the due diligence work on the assets, liabilities and operations of the Group, and the Company will provide the Investor with legal opinion on outstanding litigations, claims, legality of asset ownership, environmental protection, work permits for the exploration etc; and

— the Investor has obtained all the necessary internal, governmental and other regulatory approvals, consents and registration required for the completion of the Investment Agreement.

At the approval date of these financial statements, the abovementioned conditions have not yet been completed.

44. Comparative Figures

As a result of the application of HKAS 1 (revised 2007), Presentation of financial statements, and HKFRS 8 Operating segments, certain comparative figures have been reclassified to conform to current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31 MARCH 2010

TURNOVER AND NET LOSS

For the year ended 31 March 2010, the principal business, exploration and exploitation of mineral resources, has not yet generated any income. Turnover of trading and sales of metals was approximately HK$14,730,000 (2009: HK$4,287,000), up by 244% as compared to the same period in 2009. Gross profit was approximately HK$139,000 (2009: gross loss of approximately HK$35,000). Loss for the year amounted to approximately HK$264,164,000 (2009: Loss HK$162,918,000), representing a 62% increase compared with that of last year mainly due to full year impact of the imputed finance costs for the convertible bonds and promissory note of approximately HK$270,814,000 (2009: HK$117,872,000) partially offset by profits on disposals of discontinued operations of approximately HK$30,538,000 (2009: nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2010, the Group's current ratio was approximately 0.03, representing a decrease of approximately 69% when compared to that of the previous financial year. Gearing ratio, calculated based on non-current liabilities of approximately HK$469,824,000 (2009: HK$1,130,843,000) and shareholders' surplus of approximately HK$4,739,129,000 (2009: shareholders' surplus HK$4,262,278,000) decreased from 26.5% for 2009 to 9.9% for 2010. The decreases in current ratio and gearing ratio were primarily due to the re-classification of promissory note in fair value of approximately HK$184,753,000 (2009: HK$160,510,000) from non-current liabilities to current liabilities and conversions of convertible bonds during the year.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2010, the Group has 20 full time employees (2009: 34). Employees are remunerated with reference to market terms and according to their individual work performance, qualification and experience. Remuneration includes monthly basic salaries, retirement benefits under the Mandatory Provident Fund, medical schemes and performance-lined discretionary bonuses.

All qualifying Group employees in Hong Kong participate in the Mandatory Provident Fund Scheme (the "Scheme"). The assets of the Scheme are held separately from those of the Group in funds under the control of trustees. Group contributions were grossly matched by employee contributions.

The Company's policy concerning remuneration of the executive Directors is as follows:

(i) the executive Directors' remuneration is determined on the basis of his or her experience, responsibility, workload and the time devoted to the Group; and

(ii) at the discretion of the Board or a committee thereof, the executive Directors may be granted options pursuant to the Share Option Scheme as defined in note 35 to the financial statements and/or any other such schemes of the Company as part of their remuneration package.

BORROWING FACILITIES

As at 31 March 2010, the Group has no borrowing facilities.

The Group generally finances its operation by internal resources and a HK$8 million non-secured and non-interest bearing loan from a shareholder having no fixed repayment date.

As at the latest practical date, the Directors consider that after Completion of the Investment Agreement and Debt Restructuring Agreement (details of which have been disclosed in the Announcement date 14 May 2010), the Group will have sufficient working capital to meet its present requirements. If the Investment Agreement and Debt Restructuring Agreement cannot be completed by 30 September 2010 (the Long Stop Date), the Directors will actively pursue alternative source of fundings to meet the Group's working capital requirements.

PLEDGE OF ASSETS

At 31 March 2010, the Group has no asset being pledged.

TREASURY POLICIES

The Group's functional currency is mainly denominated in United States Dollar and the majority of the Group's tangible assets are denominated in Hong Kong Dollar. The outstanding convertible bonds are denominated in United States Dollar and are redeemable or convertible using an agreed fixed rate of HK$7.8 to US$1.0. As a result the convertible bonds have no exposure to exchange rate fluctuations. The Group has no other material exposure to exchange rate risks and has not made any arrangement to hedge against expenses, assets and liabilities for exchange rate fluctuation.

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by all effective means. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

BUSINESS REVIEW

The Group successfully obtained 2 exploration permits ("**EPs**") covering approximately 41,094 hectares Mining Area in the Leyte Gulf and San Pedro Bay off Leyte and Samar in the Philippines on 23 December 2009. The EPs are valid for a period of 2 years and shall be renewable for like periods but not to exceed a total term of 6 years subject to compliance with all the terms and conditions of the EPs and provided that there is no violation of any provision of the Mining Act and its Implementing Rules and Regulations. Mogan was conducting exploration programs jointly with Mines And Geosciences Bureau of Philippines ("**MGB**") under the provisions of a Memorandum of Agreement entered into between Mogan and MGB. Since the EPs were granted, Mogan has been conducting the exploration program independently.

On 15 June 2010, MGB has also accepted Mogan's application for a Mineral Production Sharing Agreement ("**MPSA**"). The acceptance of the application signified that Mogan has fulfilled mandatory requirements of the application. The application is about to enter the stage of review and evaluation by MGB. Upon approval of the MPSA by MGB, the Group will have the required permit to roll-out production facilities for magnetite exploitation in the Philippines.

Performance of the Group's video distribution business continued to be weak during the year. On 15 September 2009, the Group completed disposal of all interests in the loss-making Panorama Entertainment Group Limited ("**Panorama Group**") to an independent third party for a nominal consideration of HK$100. Upon completion of the disposal, Panorama Group has consolidated net liabilities of approximately HK$25,204,000. A once-off gain on disposal of approximately HK$25,204,000 was recorded.

Besides, on 29 June 2009, the Group completed disposal of all interests in the loss-making Datewell Group & CPE Program Distribution Limited ("**Datewell Group**") to another independent third party for a nominal consideration of HK$100. Upon completion of the disposal, Datewell Group has consolidated net liabilities of approximately HK$5,334,000. A once-off gain on disposal of approximately HK$5,334,000 was recorded.

PROSPECTS

In 2010, Vale, Rio Tinto and BHP, the world's biggest exporters of the iron ore, replaced the cumbersome annual benchmark system with a new index-based mechanism, and purported that prices for each quarter would now be based on the average spot market price during the previous quarter. The big three's final goal is likely to move to spot-based sales to end fixed-term contract sales. Most believe the next couple of quarters will be the testing point.

For the coming third quarter, the three big suppliers are proposing hikes ranging from 20 percent to 30 percent, all based on the Platts iron ore index. While China, the largest buyer of iron ore, still insists that ore price negotiations with Vale, Rio Tinto and BHP Billiton are continuing although its mills have won permission to agree "interim" deals. We believe that the above stated price increase will likely to prevail in the third quarter.

Meanwhile, China's steel industry may have to deal with headwind including near term slow down in property sector and removal of export tax rebate. There are other policy related issues steel mills would have to deal with such as industry-wide capacity reduction arises from China's push to cut down energy consumption during the eleventh five-year plan and government driven consolidation. Upon achieving these goals PRC steel industry will likely to enjoy better pricing power and improving profit margins along with stronger bargaining power with the Big Three miners hence will lead to a healthier steel industry. These policy directives will take time to materialise and the Big Three miners will likely to have the upper hand towards China's steel industry for the time being. The ongoing recovery for worldwide economy and strong domestic demand will continuous provide pricing supports to the iron ore market during the near to mid-term horizon. We consider that it is an appropriate time for the Group to enter the market.

The Group has been proceeding with the Investor and Kesterion on the fulfillment of the necessary steps and procedures for the completion and implementation of the Investment Agreement and the Debt Restructuring Agreement (details of which have been disclosed in the announcement dated 14 May 2010) and the conditions precedent thereof. If the Investment Agreement and the Debt Restructuring Agreement together with the transactions thereof are completed, the Group will have the necessary initial start-up capital for the mining business in the Philippines and for meeting its general working capital requirements. It is expected that full potential of the mining business will then be able to be realized.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31 MARCH 2009

TURNOVER AND NET LOSS

For the year ended 31 March 2009, turnover was approximately HK$17,342,000 (2008: HK$33,157,000), down by 47.7% as compared to the same period in 2008. Sales of goods for the year ended 2009 was approximately HK$9,637,000 (2008: HK$27,446,000), representing a decrease of approximately 64.9% over the corresponding period of last year due to drop of sales volume. Sales of goods accounts for 55.6% of the turnover of the Group. Sublicensing income for the year ended 31 March 2009 was approximately HK$3,418,000 (2008: HK$2,141,000), representing an approximate 59.6% increase when compared to that of the same period in 2008. There were no film exhibition and distribution income for the year ended (2008: HK$3,570,000), due to the termination of the service at the beginning of year. Gross margin ratio was stable over two years. Loss for the year amounted to approximately HK$162,918,000 (2008: Loss HK$48,642,000), representing a 234.9% increase compared with that of last year mainly due to imputed finance costs for the convertible bond and promissory note of approximately HK$109,118,000 (2008: nil) and approximately HK$8,754,000 (2008: nil) and an increase of impairment loss on assets.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2009, the Group's current ratio was approximately 0.72, representing a decrease of approximately 57.1% when compared to that of the previous financial year. Gearing ratio, calculated based on non-current liabilities of approximately HK$1,130,843,000 (2008: HK$6,898,000) and shareholders' surplus of approximately HK$4,226,813 (2008: shareholders' surplus HK$31,407,000). The decrease in current ratio was largely due to a decrease in balance of bank and cash to HK$21,150,000 as at 31 March 2009 from HK$51,746,000 in 2008.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2009, the Group employed 34 staff in total (2008: 25). The Directors believe that the professionalism, experience and quality of staff bring initiative and sustainability to the Group. The remuneration of the staff are based on experience and work performance. The staff are rewarded with bonus, medical benefits and share options according to performance.

The Company's policy concerning remuneration of the executive Directors is as follows:

(i) the executive Directors' remuneration is determined on the basis of his or her experience, responsibility, workload and the time devoted to the Group; and

(ii) at the discretion of the Board or a committee thereof, the executive Directors may be granted options pursuant to the Share Option Scheme as defined in note 31 to the financial statements and/or any other such schemes of the Company as part of their remuneration package.

BORROWING FACILITIES

As at 31 March 2009, the Group had outstanding borrowings of approximately HK$6,339,000, comprising bank and other borrowings of approximately HK$3,907,000, bank overdrafts of approximately HK$2,432,000 and obligations under finance leases of approximately HK$726,000.

As at 31 March 2009, the Group had borrowings and banking facilities to the extent of approximately HK$11,000,000 for which the following collateral and security are provided by related parties:

a. Properties owned by a subsidiary's director; and

b. Properties owned by Players Pictures Company Limited, Metropolis Communications Limited, Brilliant Business Limited and Sunny Fancy Limited in which the subsidiary's directors have beneficial interest.

In addition to the above, there were other assets which had been pledged, details of which are set out in the next paragraph headed "Pledge of Assets".

The Group generally finances its operation with internally generated resources and banking facilities provided by its bankers in Hong Kong.

As at 31 March 2009, the Group had aggregated composite banking facilities of approximately HK$11,000,000, of which HK$6,339,000 had been utilized.

As at 31 March 2009, the Group's bank borrowings of approximately HK$4,520,000 are repayable on demand or within one year.

At the latest practical date, the Directors are of the opinion that, taking into account its internally generated fund and its current available banking facilities, the Group has sufficient working capital to meet its present requirements.

PLEDGE OF ASSETS

At 31 March 2009, the Group pledged time deposits of approximately HK$2,183,000 (2008: HK$2,155,000) and a film right with a carrying value of nil (2008: HK$769,000) to banks to secure bank facilities granted to the Group.

FOREIGN CURRENCIES

The Group assets and liabilities are measured using the currency that best reflects the economic substance of the underlying transactions, events and circumstances relevant to the entity. The functional currency of the Company is United State dollars ("US$") after the acquisition of First Pine Enterprises Limited ("First Pine") on 18 December 2008 as referred to in note 37, because the transactions, events and circumstances of the Company has been changed to and reflected in US$ from the date of acquisition of First Pine. The functional currencies of its major subsidiaries are US$ and HK$. In the opinion of the directors of the Company, there are no material effects on the financial statements of the Company arising from the change of the functional currency from HK$ to US$. The consolidated financial statements are presented in HK$, as the Company is listed in Hong Kong, the directors of the Company consider that it is more appropriate to present the consolidated financial statements in HK$, when most of its public investors are located in Hong Kong.

The foreign currency exposure of the Group is limited as most of the transactions were denominated in US$ and HK$, which is pegged with US$ at a designated range. Management considered that as the foreign exchange rate risk is low, the Group did not employ any financial instruments for hedging purposes.

BUSINESS REVIEW

The Group had a hard time during the year ended 31 March 2009. Both of its video distribution and animation character licensing businesses were facing unresolved piracy issues.

Although piracy is highly under control in Hong Kong, high quality pirated video copies in Southern China are easily accessible by frequent commuters from Hong Kong. Some of these pirated copies even come with nice packaging. Besides, peer-to-peer sharing of copyright protected videos over internet is becoming easier and more popular to consumers possessing elementary computer skills. Fueled by the fast penetration of powerful personal computer, young consumers are getting more used to enjoy movies played on his/her own PC. Further, the return-to-cinema phenomenon driven by highly appointed cinemas equipped with excellent surround sound systems has hit our film rights distributions and video product sales business heavily over the past 2 years.

Since March 2008 the Group has been actively seeking for other opportunities to widen its scope of business and to increase revenue sources. On 18 December 2008 Black Sand Enterprises Limited, a wholly owned subsidiary of the Company, completed the acquisition of a direct and indirect 64% major stake in Mt. Mogan Development and Resources Corporation ("Mogan"). Mogan, a Philippine national company, is the holder of 41,093.85 hectares of offshore magnetite mining claims along the municipalities of Tacloban, Tanauan, Tolosa, Dulag, Mayorga, MacArthur and Abuyog in Leyte Province and Basey and Marabut in Samar Province of The Philippines.

Black Sand has also secured the right to further acquire a major stake in two other mining claims in the Philippines, 17,205.22 hectares in Negros Occidental Province along the municipalities of Ilog, Suay, Himamaylan, Binalbagan, and Hinigaran and 15,535.82 hectares in Surigao del Sur Province along the municipalities of Tandag and Cagwait.

During the year ended 31 March 2009 Mogan has commenced exploration in the claim areas preparing for the most efficient and cost effective exploitation operations. The Group has also engaged in trading business of precious metal mainly for early participation in the promising metal trading.

PROSPECTS

China is the biggest crude steel producer and finished steel consumer in the world. Our Group has grasped the valuable opportunity to gain access to a large iron ore mining claim in the Philippines. The physical location of the Mogan's mining assets in The Philippines has its competitive niche over other iron ore producers given its' proximity to China. The strategic location will also represent significant cost savings to most of the major steel mills in Asia in the form of lower freight cost and shorter delivery time, and lower carrying cost related to inventory built up in the very capital intensive steel industry.

The Group will not stop structural growth at this stage. It will continue seeking for high potential or high value mineral resources in the Region to build up and strengthen its resource portfolio.

3. FINANCIAL AND TRADING PROSPECTS

As reported and explained in the Company's previous announcements on group results and fund raising events, the Company has been actively raising start-up capital for the Philippines mining project due to the termination of the 3 year Euro 200 million convertible loan in September last year in the midst of global financial turmoil. In February this year the Company proposed to raise HK$304 million by way of open offer for financing its general working capital. The Proposed Open Offer was terminated on 9 April 2010 in order to fulfill one of the condition precedents of the Investment Agreement signed on the same date. Further, for the purpose of stopping undesirable cash drain, the Company disposed two loss-making businesses in last year.

As at the Latest Practicable Date the Group has outstanding Kesterion Existing Debts in an aggregate amount of HK$1,769.5 million, of which HK$190.0 million and HK$8.0 million were due on 18 June and on demand respectively. Immediately after Completion of the Investment Agreement and the Debt Restructuring Agreement the Group's total debt will be reduced to HK$500.0 million under the 2010 Convertible Bonds. Besides, the Group is expected to have a net cash position, after deducting professional and related incidental expenses, of approximately HK$1,200.5 million. Of which, approximately HK$900.0 million will be used as initial start-up capital for the Philippines mining project and approximately HK$300.5 million will be used as general working capital of the Group. As a result, the Group's financial position will be greatly enhanced and will become much stronger.

Both long-term contract price and spot price of iron ore in the international market not only have rebounded but achieved historical high in recent months. The availability of the initial start-up capital for the mining operation enables the Group to capitalize on the favorable market conditions and benefits therefrom.

4. INDEBTEDNESS OF THE GROUP

As at 31 May 2010, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding borrowings in face value of approximately HK$1,769.5 million, comprising the following:

	31 May 2010
	HK$'million
2008 Kesterion Convertible Bonds	1,571.5
Kesterion Existing Promissory Notes	190.0
Kesterion Existing Short-term Loans	8.0
	1,769.5

All of the above borrowings are unsecured and are not guaranteed. As at 31 May 2010, the Group had rental commitments of approximately HK$3.9 million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables in the normal course of business, as at the close of business on 31 May 2010, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other contingent liability.

5. WORKING CAPITAL STATEMENT

Provided that (a) the transactions under the Investment Agreement and the Debt Restructuring Agreement are completed as scheduled; and (b) there will not be any material changes in the Group's operating, financial or investment strategies following a change in control in the Company as contemplated in this circular, the Directors, after due and careful consideration, are of the opinion that, taking into account (i) the internal financial resources; and (ii) the cash flows in connection with the operating activities, the Group will have sufficient working capital for at least twelve months from the date of this circular.

6. MATERIAL CHANGES

As at the Latest Practicable Date, the Board confirms that there is no material change in the financial or trading position or outlook of the Group since 31 March 2010, being the date to which the latest audited consolidated financial statements of the Group were made up, up to the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The directors of China Raybo International Corp., Ltd jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than those in relation to the Group, Kesterion Group and the Debt Restructuring Agreement) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other fact not contained herein the omission of which would make any statement herein (other than those in relation to the Group, Kesterion Group and the Debt Restructuring Agreement) misleading.

2. SHARE CAPITAL

(a) Share Capital of the Company

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following the completion of the Investment Agreement and increase in authorised share capital (assuming that no options under the Share Option Scheme are exercised on or before the completion date) will be as follows:

Authorised	*HK$*
As at the Latest Practicable Date	
20,000,000,000 Shares	HK$200,000,000.00
Increase of 10,000,000,000 Shares	HK$100,000,000.00
30,000,000,000 Shares	HK$300,000,000.00
Issued and to be issued (paid up or credited as fully paid):	
7,601,534,023 Shares in issue as at the Latest Practicable Date	HK$76,015,340.23
10,000,000,000 Subscription Shares to be issued pursuant to the Investment Agreement	HK$100,000,000.00
2,000,000,000 Conversion Shares to be issued upon full exercise of the Conversion Rights	HK$20,000,000.00
19,601,534,023 Shares	HK$196,015,340.23

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares to be listed or dealt in on any other stock exchanges.

The Subscription Shares and the Conversion Shares (when allotted, fully paid or credited as fully paid and issued) will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Subscription Shares and the Conversion Shares. Holders of the Subscription Shares and the Conversion Shares will be entitled to vote, receive any return of capital and all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Subscription Shares and the Conversion Shares respectively. There is no restriction effecting the remittance of profits or the regulation of capital into Hong Kong from outside Hong Kong.

(b) **Options, derivatives, warrants and conversion rights:**

Set out below are the details of the outstanding share options granted under the Share Option Scheme as at the Latest Practicable Date:

Name/Category of participants	**As at Latest Practicable Date**	**Grant Date**	**Exercisable Period**	**Exercise Price** *(HK$)*
Consultant				
Well Spread Consultants Limited	5,000,000	6 March 2007	10 years	0.188
Total	5,000,000			

Upon the completion of the Investment Agreement and the Debt Restructuring Agreement, the exercise price of and/or the number of Shares comprised in the outstanding share options may be subject to adjustments.

As at the Latest Practicable Date, save for the share options granted pursuant to the Share Option Scheme, the Shares to be issued upon the completion of the Investment Agreement and the 2008 Kesterion Convertible Bonds, no share nor loan capital of the Company has been issued or is proposed to be issued for cash or otherwise, or has been put under option or agreed conditionally or unconditionally to be put under option, and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital and no options, warrants, derivatives, convertible securities or conversion rights affecting the Shares have been issued or granted or agreed conditionally or unconditionally to be issued or granted.

(c) **Movements in issued share capital**

There has been no alteration in the number of Shares issued since 31 March 2010, the date on which the latest audited financial statements of the Group were made up, and up to the Latest Practicable Date.

	No. of Shares
As at Latest Practicable Date	7,601,534,023

3. DISCLOSURE OF INTERESTS BY DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the Directors (including proposed Directors) and the chief executive of the Company in the Shares of the Company, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or as recorded in the register required to be kept pursuant to section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, were as follows:

(a) **Long positions in Shares of the Company**

Name of Directors	Capacity	Number of Shares	Approximate percentage of the Company's issued share capital
Yin Mark Teh-min	Family Interests	2,500,000	0.03%
	Beneficial owner	380,000	0.01%
Total:		2,880,000	0.04% *(Note 1)*

Notes:

1. Ms. Wong Shu Wah, Ceci, being the wife of Mr. Yin Mark Teh-min ("Mr. Yin"), is interested in 2,500,000 Shares. Accordingly, Mr. Yin is deemed to be interested in such 2,500,000 Shares. Mr. Yin also holds 380,000 Shares as beneficial owner. Therefore, Mr. Yin is interested and deemed to be interested in 2,880,000 Shares in total.

(b) **Directors' Short Positions In Shares, Underlying Shares And Debentures**

As at the Latest Practicable Date, there are no short positions of the Directors (including proposed Directors) in the Shares, underlying Shares and debentures of the Company and its associated corporations that (i) 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 (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

4. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (other than Directors or chief executive of the Company) had interests or short positions in the Shares, underlying Shares or debentures of the Company which would fall to be disclosed to the Company under the provisions Divisions 2 and 3 of Part XV of the SFO, or, who was, 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 member of the Group.

(a) **Long positions of substantial shareholders in the Shares and underlying Shares of the Company:**

Name of substantial shareholder	Nature of interest	No. of Shares and/or underlying Shares held	Approximate percentage of the shareholding
Kesterion Investments Limited	Beneficial owner	1,020,250,000	13.42
Wong, Eva	Interest of controlled corporation	1,020,250,000	13.42
	Beneficial owner	2,260,000	0.03
Sub-total:		1,022,510,000	13.45
Koh Tat Lee, Michael	Family interest *(Note 1)*	1,022,510,000	13.45
Singson Ryan Luis V.	Beneficial owner	1,745,330,000	22.96

Notes:

1. Mr. Koh Tat Lee, Michael, being the husband of Ms. Eva Wong, is deemed to be interested in such 1,022,510,000 shares held by Kesterion.

(b) **Long positions in the underlying Shares of the Company**

Name of substantial shareholder	Nature of interest	No. of Shares and/or underlying Shares held	Approximate percentage of the shareholding
Kesterion Investments Limited	Beneficial owner *(Note 2)*	2,245,000,000	29.53
Wong, Eva	Interest of controlled corporation *(Note 2)*	2,245,000,000	29.53
Koh Tat Lee, Michael	Family interest *(Note 2)*	2,245,000,000	29.53

Notes:

2. This represents the principal amount of approximately US$201,474,359 of convertible bonds, which upon conversion in full will result in the allotment and issue of 2,245,000,000 Shares, which have been issued to Kesterion Investments Limited on 18 December 2008 as part of the consideration for the acquisition of First Pine Enterprises Limited. The entire issued share capital of Kesterion Investments Limited is beneficially owned by Ms. Eva Wong ("Ms. Wong"). Ms. Wong, is the sister of the chairman of the Company, Mr. Wong Chung Yu, Denny and the sister-in-law of a non-executive Director of the Company Mr. Yin Mark Teh-min. Mr. Koh Tat Lee, Michael, being the husband of Ms. Wong, is deemed to be interested in such 2,245,000,000 Shares.

Save as disclosed in this paragraph, the Directors of the Company are not aware, as at the Latest Practicable Date, of any person (not being a Director or chief executive of the Company) who had interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or were expected, directly or indirectly to be 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 Company or any other member of the Group.

5. DEALINGS IN SECURITIES OF THE COMPANY

During the period beginning six months prior to the date of the Announcement and ending on the Latest Practicable Date:

(a) none of the Company and the Directors had dealt for value in the Shares, convertible securities, warrants, options and derivatives of the Investor or the Company; and

(b) save for entering into the Investment Agreement, none of the Investor, its ultimate beneficial owners and parties acting in concert with any of them have dealt for value in the Shares, convertible securities, warrants, options and derivatives of the Company.

6. MARKET PRICES

The table below shows the closing price of the Shares on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the period commencing six months preceding the date of the Announcement up to the Latest Practicable Date; (ii) the Last Trading Day and (iii) the Latest Practicable Date:

Date	**Closing price per share** *HK$*
30 September 2009	0.092
30 October 2009	0.109
30 November 2009	0.095
31 December 2009	0.067
29 January 2010	0.060
26 February 2010	0.031
31 March 2010	0.090
30 April 2010	Not available (Trading suspended)
31 May 2010	0.098
30 June 2010	0.071
Last Trading Day	0.120
Latest Practicable Date	0.082

The highest and lowest closing prices per Share recorded on the Stock Exchange during the period commencing six months preceding the date of the Announcement and ending on the Latest Practicable Date were HK$0.129 and HK$0.029 on 17 May 2010 and 25 February 2010, respectively.

7. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors (including proposed Directors), had any existing or proposed service contract with the Company or any member of the Group which is not expiring or determinable by the Group within one year without payment of compensation other than statutory compensation.

None of the Directors has a service contract with the Company or any of its subsidiaries or associated companies which:

(i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the date of the Announcement;

(ii) are continuous contracts with a notice period of 12 months or more; or

(iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

8. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENT OF THE GROUP

As at the Latest Practicable Date, none of the Directors (including proposed Directors) had any direct or indirect interest in any assets which have been since 31 March 2010 (being the date to which the latest published annual report of the Group was made up) acquired or disposed of or leased to or proposed to be acquired or disposed of or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors had any material interest in any contract or arrangement which is significant in relation to the business of the Group.

9. INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors (including proposed Directors) nor their associates had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group. Based on information available to the Company, the Company does not have any controlling shareholder (as defined in the GEM Listing Rules).

10. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any material litigation or claim and no material litigation or claim was known to the Directors to be pending or threatened against any member of the Group.

11. MATERIAL CONTRACTS

Save as disclosed below, there are no material contracts (other than contracts entered into in the ordinary course of business) which have been entered into by the Group in the two years immediately preceding the date of the Announcement and up to the Latest Practicable Date and are or may be material:

(i) the convertible loan agreement dated 30 September 2008 entered into between the Company, Black Sand Enterprises Limited and Fortress World Limited whereby Fortress World Limited has agreed to provide a 3-year financing facility of Euro 200 million (equivalent to approximately HK$2,230 million) to the Company at a fixed interest rate of 3.00% per annum, which is payable on an annual basis;

(ii) the amendment agreement dated 8 November 2008 entered into between Kesterion Investments Limited, Black Sand Enterprises Limited and the Company, in relation to the sale and purchase agreement dated 2 May 2008 relating to the acquisition of 100% of the issued share capital of First Pine Enterprises Limited at the consideration of HK$5,700 million;

(iii) the sale and purchase agreement dated 23 June 2009 entered into between Mr. Chen Wei Dong and the Company in respect of the disposal of 100 ordinary shares of US$1.00 each in the issued share capital of Datewell Limited and 1 ordinary share of US$1.00 each in the issued share capital of CPE Program Distribution Limited at the consideration of HK$100 (the "Datewell / CPE Program Sale and Purchase Agreement");

(iv) the supplemental agreement dated 26 June 2009 entered into between Mr. Chen Wei Dong and the Company in relation to the Datewell / CPE Program Sale and Purchase Agreement;

(v) the Sale and Purchase Agreement dated 21 July 2009 entered into between the Company and Well Charm International Development Limited in relation to the disposal of 200 ordinary shares of US$1.00 each in the share capital of Panorama Entertainment Group Limited ("Panorama") and the assignment of the rights to and the interests in the aggregate amount outstanding from Panorama to the Company as at the date of completion of the disposal at a consideration of HK$100;

(vi) the Investment Agreement; and

(vii) the Debt Restructuring Agreement.

12. EXPERTS AND CONSENTS

The following is the qualification of the experts whose opinion or advice which is contained in this circular:

Name	Qualification
Donvex Capital	a licensed corporation authorised to conduct type 6 (advising on corporate finance) regulated activity under the SFO
Nuada	a licensed corporation authorised to conduct type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Nuada and Donvex Capital:

(a) did not have any direct or indirect interest in any asset which were acquired or disposed of by or leased to, or proposed to be acquired or disposed of by or leased to, any member of the Group, since 31 March 2010, the date to which the latest published audited consolidated financial statements of the Group were made up; and

(b) was not beneficially interested in the share capital of any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of Donvex Capital and Nuada has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or references to its name in the form and context in which they appear.

13. CORPORATE INFORMATION

Company Secretary
Mr. Chan Ming Cho, Joe, Certified Public Accountant

Registered Office
P.O. Box 309, Ugland House,
South Church Street, George Town,
Grand Cayman, Cayman Islands
British West Indies

Head office and principal place of business in Hong Kong
Suite 3008, Tower One, Times Square,
1 Matheson Street, Causeway Bay,
Hong Kong

Share registrar and transfer office in Hong Kong
Tricor Tengis Limited
26th Floor, Tesbury Centre,
28 Queen's Road East, Wanchai,
Hong Kong

Auditors
CCIF CPA Limited, Certified Public Accountants
34/F The Lee Gardens,
33 Hysan Avenue, Causeway Bay
Hong Kong.

14. MISCELLANEOUS

The English text of this circular shall prevail over their respective Chinese texts in case of inconsistencies.

The address of the Investor is as follows:

Registered Office:	**Correspondence Address:**
4F Build 5, No.2 Yue Tan West Street Yi, Beijing, China	R1501, Tower H, Shi Jian Guo Ji Building, No. 6 Shu Guang Xi Li Jia, Chaoyang District, Beijing, China

The names of the directors of the Investor are:

Mr. SUO Chun Sheng (索春生), Mr. WANG Li Jun (王立軍), Ms. TAN Jun Xia (譚俊霞), Mr. HAO Jing Yun (郝景雲) and Mr. YANG Long Sen (楊隆森).

The registered and correspondence addresses of Beijing Jie Neng San You Investment Co. Ltd are the same as follow:

R1501, Tower H, Shi Jian Guo Ji Building,
No. 6 Shu Guang Xi Li Jia, Chaoyang District, Beijing,
China

The names of the directors of Beijing Jie Neng San You Investment Co. Ltd. are:

(a) SUO Chun Sheng (索春生)
(b) YANG Long Sen (楊隆森)
(c) ZHANG Su (張粟)

15. ADDITIONAL DISCLOSURE PURSUANT TO THE TAKEOVERS CODE

As at the Latest Practicable Date:

(a) no Shares, convertible securities, warrants, options and derivatives in respect of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company were owned or controlled by a subsidiary of the Company or by a pension fund of any member of the Group or by the Joint Independent Financial Advisers or by any adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code;

(b) no Shares, convertible securities, warrants, options and derivatives in respect of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company were owned or controlled by a person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate and neither the Company nor such persons who is an associate of the Company have entered into such an arrangement;

(c) no Shares, convertible securities, warrants, options and derivatives in respect of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company;

(d) no Shares, convertible securities, warrants, options and derivatives in respect of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company acquired/to be acquired by the Investor, its ultimate beneficial owner, or parties acting in concert with any of them under the Investment Agreement, will be transferred, charged or pledged to any other persons;

(e) none of the Company and the Directors, the Investor and any person acting in concert with them had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;

(f) apart from Mr. Yin Mark Teh-min, no Director held any Shares or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company; Mr. Yin Mark Teh-min will abstain from voting in relation to the resolution(s) in respect of the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver, the Special Deal and the Special Mandate;

(g) no Shares, convertible securities, warrants, options and derivatives in respect of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company were owned or controlled by a person with whom the Investor or any person acting in concert with it has any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code. There have been no shareholdings and dealing for value in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company by such persons in the six months prior to 14 May 2010 and up to the Latest Practicable Date;

(h) save for the Investment Agreement and the transactions contemplated thereunder, there was (i) no agreement, arrangement or understanding (including any compensation arrangement) between the Investor, its ultimate beneficial owner or any person acting in concert with any of them and any Director, recent director, shareholder or recent shareholder of the Company which had any connection with or dependence upon the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal; and (ii) no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of, or otherwise connected with the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal;

(i) no shareholder of the Company has, prior to the posting of this circular, irrevocably committed themselves to vote for or against the resolutions relating to the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal;

(j) no benefit will be given to any Director as compensation for loss of office or otherwise in connection with the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal;

(k) no arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code exist between the Investor, its ultimate beneficial owner, or any person acting in concert with any of them, and any other person; and

(l) no material contracts have been entered into by the Investor, its ultimate beneficial owner, or any person acting in concert with any of them in which any Director has a material personal interest.

As at the Latest Practicable Date, no commissions, discounts, brokerages or other special terms had been granted by any member of the Group to any Directors, proposed Directors, promoters or experts (as named in this circular) since the date to which the latest published audited accounts of the Company were made up, being 31 March 2010, in connection with the issue or sale of any capital of any member of the Group.

16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspections during normal business hours at the Company's principal place of business in Hong Kong at Suite 3008, Tower One, Times Square, One Matheson Street, Causeway Bay, Hong Kong from the date of this circular up to and including the date of the EGM in accordance with Note 1 to Rule 8 of the Takeovers Code and at the EGM and will be displayed on the websites of the SFC (www.sfc.hk) and on the Company's website (www.pamining.com):

(a) the memorandum and articles of association of the Company;

(b) the letter from the Board, the text of which is set out on pages 6 to 26 of this circular;

(c) the letter of advice from Nuada and Donvex Capital, the text of which is set out on pages 29 to 40 of this circular;

(d) the written consent from Nuada and Donvex Capital referred to in the paragraph headed "Experts and consents" in this appendix;

(e) a letter from the Independent Board Committee, the text of which is set out on pages 27 to 28 of this circular;

(f) this circular;

(g) the audited consolidated accounts of the Company for the last two financial years ended 31 March 2009 and 31 March 2010;

(h) the material contracts referred to in the section headed "Material Contracts" in this appendix; and

(i) the memorandum and articles of association of the Investor.

PAN ASIA MINING LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8173)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Pan Asia Mining Limited (the "**Company**") will be held at Board Room, 1/F, South Pacific Hotel, 23 Morrison Hill Road, Wanchai, Hong Kong on Tuesday,10 August 2010 at 11:30 a.m. for the purposes of considering and, if thought fit, passing the following resolutions (with or without modifications) which will be proposed as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

ORDINARY RESOLUTIONS

"1. **THAT**:

(i) the authorized share capital of the Company be increased from HK$200,000,000 divided into 20,000,000,000 ordinary shares of the Company of HK$0.01 each ("**Shares**") to HK$300,000,000 divided into 30,000,000,000 Shares by creation of 10,000,000,000 new Shares of HK$0.01 each; and

(ii) any one director of the Company be and is hereby authorized for and on behalf of the Company to execute all such other documents (with or without the affixation of the common seal but to be countersigned by the secretary of the Company or by another director of the Company if it is required to affix the common seal of the Company thereto), instructions and agreements and to do all such acts and things deemed by him to be incidental to, ancillary to, or in connection with the matters contemplated under this resolution."

2. "**THAT** the conditional debt restructuring agreement dated 14 May 2010 (the "**Debt Restructuring Agreement**") (a copy of which is produced to the meeting marked "A" and initialed by the Chairman of the meeting for the purpose of identification) entered into among the Company, Black Sand Enterprises Limited and Kesterion Investments Limited in respect of the restructuring of the Kesterion Existing Debts (as defined in the circular of the Company dated 20 July 2010) and subject to and conditional upon the passing of the resolutions numbered 3, 4, 5 and 6, the transactions contemplated thereunder be and are hereby approved, confirmed and/or ratified; and that the Directors be and are hereby authorised, for and on behalf of the Company, to do all such acts and things and to sign, seal, execute and deliver all such documents and take all such steps which they may in their discretion consider necessary desirable or expedient to implement and carry into effect this resolution."

3. "**THAT**:

(i) the conditional investment agreement (the "**Investment Agreement**") dated 9 April 2010 (as amended and supplemented on 14 May 2010) entered into among the Company and China Raybo International Corp., Ltd. (the "**Investor**") in relation to the subscription of 10,000,000,000 new ordinary shares at the subscription price of HK$0.25 each by the Investor (the "**Subscription Shares**") and the three-year unsecured and non-interest bearing convertible bonds proposed to be issued to the Investor by the Company in the principal amount of US$64,102,564.0 (equivalent to approximately HK$500.0 million) (the "**2010 Convertible Bonds**") (a copy of which is produced to the meeting marked "B" and initialed by the Chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and/or ratified; and that the Directors be and are hereby authorized, for and on behalf of the Company, to do all such acts and things and to sign, seal, execute and deliver all such documents and take all such steps which they may in their discretion consider necessary, desirable or expedient for the implementation of and giving effect to the Investment Agreement and the transactions contemplated thereunder as they may in their discretion consider to be desirable and in the interests of the Company; and

(ii) subject to and conditional upon the passing of the resolutions numbered 1, 2, 4, 5, and 6 and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Subscription Shares and the shares to be issued on conversion of the 2010 Convertible Bonds (the "**Conversion Shares**"), the grant of a special mandate to the Directors for the allotment and issue of the Subscription Shares, the 2010 Convertible Bonds and the Conversion Shares thereunder pursuant to the Investment Agreement upon the terms and subject to the conditions therein contained be and are hereby approved; and that the Directors be and are hereby authorised, for and on behalf of the Company, to do all such acts and things and to sign, seal and execute and deliver all such documents and take all such steps which they may in their discretion consider necessary, desirable or expedient for the implementation of and giving effect to the allotment and issue of the Subscription Shares, the 2010 Convertible Bonds and the Conversion Bonds as they may in their discretion consider to be desirable and in the interests of the Company."

4. "**THAT** conditional upon the passing of the resolution no.3 above and subject to the executive director of the Corporate Finance Division of the Securities and Futures Commission or any delegate thereof (the "**Executive**") granting to the Investor and parties acting in concert with it, a waiver (the "**Whitewash Waiver**") pursuant to Note 1 on dispensations from Rule 26 of the Code on Takeovers and Mergers (the "**Takeovers Code**") and the satisfaction of any condition attached to the Whitewash Waiver imposed by the Executive, any obligation which may arise under Rule 26 of the Takeovers Code in connection with the allotment and issue of the Subscription Shares under the Investment Agreement and which would require the Investor and parties acting in concert with it to make a mandatory general offer to the shareholders of the Company to acquire shares in the Company other than those already owned or agreed to be acquired by the Investor and parties acting in concert with it be and are hereby waived; and that the Directors be and are hereby authorised, for an on behalf of the Company, to do all such acts

and things and to sign, seal, execute and deliver all such documents and take all such steps which they may in their discretion consider necessary, desirable or expedient to implement and/or give effect to any matters relating to or in connection with the waiver of such obligations as they may in their discretion consider to be desirable and in the interests of the Company."

5. "**THAT** the repayment of the Kesterion Existing Debts in cash under the Debt Restructuring Agreement, which would constitute a favourable condition not extended to all shareholders of the Company and therefore a special deal under Rule 25 of the Takeovers Code (the "**Special Deal**"), be and are hereby approved."

6. "**THAT**

(i) conditional upon the passing of the resolution no.3 above and subject to the completion of the Investment Agreement, Mr. Suo Chun Sheng be and is hereby appointed as executive Director of the Company and that the Directors be and are hereby authorized to fix the remuneration thereof.

(ii) conditional upon the passing of the resolution no.3 above and subject to the completion of the Investment Agreement, Ms Xu Saihua, Emma be and is hereby appointed as executive Director of the Company and that the Directors be and are hereby authorized to fix the remuneration thereof.

(iii) conditional upon the passing of the resolution no.3 above and subject to the completion of the Investment Agreement, Mr. An Tung be and is hereby appointed as non-executive Director of the Company and that the Directors be and are hereby authorized to fix the remuneration thereof."

By Order of the Board
Mr. Wong Chung Yu Denny
Chairman

Hong Kong, 20 July 2010

Registered office:
P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

Principal place of business in Hong Kong:
Suite 3008, Tower One
Times Square
One Matheson Street
Causeway Bay
Hong Kong

Notes:

(1) Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one, or if such member is a holder of more than one Share, more proxies to attend and vote in his/her stead. Where a member appoints more than one proxy, the instrument of proxy shall state which proxy is entitled to vote on a poll. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member of the Company who is an individual or a member of the Company which is a corporation shall be entitled to exercise the same powers on behalf of the member of the Company which he or they represent as such member of the Company could exercise. If more than one proxy is appointed, the appointment shall specify the number of Shares in respect of which each such proxy is appointed.

(2) In order to be valid, the form of proxy must be deposited at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney as soon as possible and in any event not less than 48 hours before the time appointed for the holding of such meeting or any adjournment thereof.

(3) The form of proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same. In the case of a form of proxy purporting to be signed on behalf of a corporation by an officer thereof it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such form of proxy on behalf of the corporation without further evidence of the fact.

(4) Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish, and in such event, the form of proxy shall be deemed to be revoked.

(5) A form of proxy for use at the meeting is enclosed.

(6) In case of 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 was solely entitled thereto. However, if more than one such joint holders are present at the meeting personally or by proxy, then one of such holders whose name stands first in the register of member of the Company shall alone be entitled to vote in respect of that share.

(7) Kesterion Group and its associates shall abstain from voting in favour on the ordinary resolution relating to the Investment Agreement, the Debt Restructuring Agreement, the Whitewash Waiver and the Special Deal at the EGM.

As at the date of this notice, the Board comprises two executive Directors, Mr. Wong Chung Yu Denny and Mr. Liu Junqing; one non-executive Director Mr. Yin Mark Teh-min; and three independent non-executive Directors, Mr. Lai Kai Jin, Michael, Mr. Chan Siu Wing, Raymond and Mr. Chu Hung Lin, Victor.