
SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

MAGNESIUM

Magnesium is a commonly used and environmentally friendly metal, having many outstanding features and a wide range of applications. There has been a significant growth in the application of magnesium alloys since the 1990s and many industrially developed countries have been actively promoting the application of magnesium in various sectors including transportation, information technology, communication, consumer electronics and military industries. Since 2000, global consumption of magnesium (primary magnesium metal) has been rapidly increasing at a rate of approximately 20% each year. For details of the history and development of the magnesium industry, the trends of global production and demand for magnesium, the applications of magnesium and the future prospects of the magnesium industry, please refer to the section headed "Industry Overview" in this prospectus.

BUSINESS OVERVIEW

We operate in the State of Perak in Malaysia and aim to become the first primary magnesium producer in the South East Asia. We have successfully acquired the Mining Right to extract dolomitic limestone from the Dolomite Hills for a term of 20 years with an option to renew for a further period of 10 years. We are also in the process of constructing the Perak Magnesium Smelter on completion of which we will be able to smelt and process the dolomitic limestone extracted from the Dolomite Hills into magnesium metal in ingot form.

According to UKM, the dolomitic reserves in the Dolomite Hills are capable of supplying a total of approximately 20,005,480 tonnes of dolomite for the Perak Magnesium Smelter for approximately 58 years with an estimated annual production capacity of 30,000 tonnes of magnesium ingots (or approximately 116 years with an estimated annual production capacity of 15,000 tonnes of magnesium ingots). We also secured the Old CVM Project Finance Loan as substituted by the New CVM Project Finance Loan and purchased the Smelter Land on which we are constructing the first production line of the Perak Magnesium Smelter, which will have an estimated annual production capacity of 15,000 tonnes of magnesium ingots and is expected to be completed and operational in or about April 2009. As at the Latest Practicable Date, we have commenced small-scale dolomite quarrying activities on the south hill of the Dolomite Hills. We are in a position readily to increase our dolomite quarrying prior to the completion of the construction of the Perak Magnesium Smelter.

We believe we have the directors and senior management with the requisite blend of experience and expertise necessary to bring the CVM Project to commercial production. Upon the commercialisation of the CVM Project, the Perak Magnesium Smelter will be the first of its kind in Malaysia.

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Our Mining Reserves

Our mining assets are the dolomitic reserves in the Dolomite Hills. On 15th June, 2006 we successfully obtained the Mining Right at no initial consideration for a term of 20 years with an option to renew for a further period of 10 years from the registered land proprietor of the Dolomite Land, HPC, which is an indirect subsidiary of SEDC, one of our Shareholders, which will hold 7.5% of the Shares immediately after the Share Offer (assuming the Over-allotment Option is not exercised). Under the Mining Agreement, CVM agrees to mine and extract an amount of not less than 15,000 tonnes of dolomite from the Dolomite Hills per month, the consideration for which is a royalty payment of RM2 (equivalent to approximately HK\$4.5) per tonne of dolomite mined and extracted from the Dolomite Land, subject to a minimum monthly sum of RM30,000 (equivalent to approximately HK\$67,797). Details of the terms of the Mining Agreement are set out in the section headed “Business — Mining Right” in this prospectus.

UKM estimated that there are approximately 14,463,824 tonnes of dolomite limestone in the south hill and 5,541,656 tonnes in the north hill, including the underground reserves. NERI is of the view that the Dolomite Hills are capable of supplying sufficient dolomite to the Perak Magnesium Smelter for the purpose of manufacturing magnesium ingots with an estimated annual production capacity of 30,000 tonnes for approximately 58 years, which is calculated as follows:

Total dolomite tonnage (1):	20,005,480 tonnes	<i>Please refer to page IV-80 of this prospectus</i>
Conversion rate (2):	11.5	<i>Please refer to page V-10 of this prospectus</i>
Magnesium tonnage (3):	1,739,607 tonnes	<i>(1) / (2)</i>
Duration of dolomite reserves (based on two production lines with an estimated annual production capacity of 15,000 tonnes of magnesium ingots per year each):	(approximately) 58 years	<i>(3) / 30,000</i>

Please refer to the UKM Report set out in Appendix IV to this prospectus for, amongst other things, methodology and basis of the calculation of our estimated reserves adopted by UKM. In estimating the amount of our dolomitic reserves, UKM has determined the quality of deposits after taking into account the MgO weight percentages of the samples taken from the Dolomite Hills. The average weight percentages of MgO for the south hill are 19.17% for above ground and 18.59% for below ground. As for the north hill, they are 20.06% for above ground and 19.10% for below ground. NERI is of the view that such MgO weight percentages are suitable for the purpose of the production of magnesium ingots at the Perak Magnesium Smelter using the Pidgeon Process.

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We have, as a commercial matter, chosen to subcontract the quarrying activities in respect of the Dolomitic Hills to the Quarry Contractor. On 16th October, 2006, CVM entered into a dolomite mining and extraction agreement with the Quarry Contractor to carry out quarrying activities on the Dolomite Land. Pursuant to the agreement, the Quarry Contractor will charge us an agreed fee of RM30.5 (equivalent to approximately HK\$68.9) per tonne of dolomite mined, extracted, removed and delivered by it, inclusive of the costs of delivery. So far as is known to the Directors, the Quarry Contractor was established on 23rd August, 1989 and is an Independent Third Party, and the main business of the Quarry Contractor is to operate as a quarry contractor. The Quarry Contractor has been engaged in quarrying works for housing project and quarrying and marketing of limestone. It has also been involved in quarrying projects such as backhoe excavator operator in tin mining, hiring of excavators and tractors, and trading in mining sand and aggregate stone.

The Quarry Contractor is familiar with the dolomite hills of Perak, as it has been involved in the quarrying of a dolomite hill adjacent to the Dolomite Hills for other purposes, such as for glass manufacturers and for agricultural uses, for more than 10 years.

We have commenced small scale quarrying activities on the south hill of the Dolomite Hills since August 2008. Our quarrying activities are subject to CVM or the Quarry Contractor obtaining and complying with the terms of the relevant licences and permits relating to our mining operations, as set out in the section headed “Regulation of our Industry — Summary of Key Regulatory Requirements” in this prospectus. As at the Latest Practicable Date, CVM and, or the Quarry Contractor had obtained all the major mining licences, permits and approvals. As for the licence for the use of explosives in the Dolomite Hills, the approval in principle from the Royal Malaysian Police was obtained on 8th August, 2008. The specific licence for the use of explosives, which sets out in detail the exact amount of explosives purchased and to be used for a particular day, can only be obtained on the day when the explosives are to be used which is the day blasting activities are to be conducted. Save for this licence which is needed each time blasting activities are to be conducted, Ben & Partners are of the view that (1) we have obtained all outstanding permits and approvals for our mining operations, (2) the permits, licenses, approval and the Mining Right obtained by us, or the Quarry Contractor in respect of our mining operations are legally valid and enforceable and (3) we are in a position to commence our quarrying activities in compliance with all relevant laws and regulations as at the Latest Practicable Date.

Details of licenses, permits and approvals we have obtained for the purpose of carrying out the mining activities in the Dolomite Land and key measures taken by us to ensure compliance by our Group and the contractors including the Quarry Contractor are set out in the sections headed “Regulation of our Industry” and “Business — Licences” respectively in this prospectus.

Perak Magnesium Smelter

In order to implement the CVM Project, on 5th April, 2006, we entered into the Smelter Land Agreement with SEDC, an existing Shareholder, for the purchase of the Smelter Land, on which the Perak Magnesium Smelter is being built, for the total purchase consideration of RM5,662,800 (equivalent to approximately HK\$12.8 million), which was based on the then market rate of approximately RM2.00 (equivalent to approximately HK\$4.5) per square foot.

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On 19th September, 2006, we entered into the EPC Contract with the EPC Contractor for the EPC works which include, amongst other things, design, piling, building and machinery installation.

To finance the construction of the Perak Magnesium Smelter on the Smelter Land, which commenced in September 2007, and related business activities contemplated under the CVM Project, including site infrastructure, soil improvement work, the purchase of equipment and other incidental costs, on 20th September, 2006, we secured the Old CVM Project Finance Loan from BPMB for a total of RM142 million (equivalent to approximately HK\$320.9 million) which was substituted by the New CVM Project Finance Loan from Bank Rakyat on 26th September, 2008 for a total amount of RM147 million (equivalent to approximately HK\$332.2 million).

In October 2006, the Company appointed the Infrastructure Contractor, who is independent from the EPC Contractor, for the purpose of carrying out non-EPC infrastructure works on the Smelter Land.

Construction of the Perak Magnesium Smelter commenced in September 2007, after substantial completion of the non-EPC infrastructure works by the Infrastructure Contractor. As the non-EPC works commenced in October 2006 (and were eventually fully completed in February 2008), the Old CVM Project Finance Loan was put in place at an earlier stage in September 2006 in order to ensure that CVM had sufficient funds to finance both the non-EPC works and the EPC works.

As mentioned above, as at the Latest Practicable Date, we have completed all non-EPC infrastructure works including, amongst other things, site clearance, earthwork, drainage, road formation, water reticulation, telephone trunking and street lighting works on the Smelter Land. Up to 30th September, 2008, we have incurred capital expenditure of approximately HK\$207.9 million in relation to the construction of the Perak Magnesium Smelter.

The Perak Magnesium Smelter is expected to have an estimated maximum production capacity of 30,000 tonnes of magnesium ingots per annum or 83 tonnes per day upon the completion of its two production lines. It has the space to construct two phases, each accommodating a production line with an estimated annual production capacity of 15,000 tonnes of magnesium ingots using the main raw material, dolomite, extracted from the Dolomite Hills. The Perak Magnesium Smelter will produce magnesium ingots using the Pidgeon Process, which is explained in detail in the section headed “Business — Magnesium Production Process” in this prospectus. We currently intend to construct the first production line with an estimated annual production capacity of 15,000 tonnes of magnesium ingots. It is expected that the major divisions of the Perak Magnesium Smelter will operate on three eight-hour shifts per day, seven days a week.

As we expand our business scale, we will invest in the construction of the second production line with an estimated annual production capacity of 15,000 tonnes of magnesium ingots, details of which will be disclosed by way of announcements and in our annual report.

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In order to provide more useful information to potential investors on various technical aspects relating to the construction and the future operation of the Perak Magnesium Smelter, we voluntarily chose to engage NERI to prepare a summary report on the Perak Magnesium Smelter, which is set out in Appendix V to this prospectus.

Our Directors have devised, and will continue to develop, a comprehensive training programme for our supervisory level staff, to be implemented before the commencement of operations at the Perak Magnesium Smelter. The training programme will comprise two modules:

- (1) Theoretical knowledge of magnesium to be given to the relevant staff, leveraging on the industry experience and expertise of our senior management team; and
- (2) Practical training relating to the operation and management of a magnesium smelter to be conducted at the Shanxi Training Plant, which has been chosen because it employs the design and technology (including the Pidgeon Process) similar to those of the Perak Magnesium Smelter. The Shanxi Training Plant has an annual production capacity of 20,000 tonnes of magnesium ingots.

Both the theoretical and practical training will be led by Mr. Gao Qi Fu, one of our executive Directors, and assisted by Mr. Zhou Wu and Mr. Wen Guo Qiang, both of whom are members of our senior management. Mr. Chong Wee Chong, our Chief Executive Officer, will supervise the training. The Company's internal training arrangements are in line with the Malaysian government policy to encourage local corporations to train local staff and upgrade their knowledge. In this regard, we received pursuant to a letter dated 11th December, 2007 issued by MIDA to CVM a training grant of RM1.3 million (equivalent to approximately HK\$2.9 million) for training our Malaysian staff. As a condition of our Plant Licence, we are also obliged to train our workers who are Malaysian citizens so that the technology transfer and expertise can be channelled to all levels of positions. The ultimate objective of developing our own training programme is to establish a corporation with a strong team of locally trained technical staff.

OUR PROSPECTIVE CUSTOMERS

As at the Latest Practicable Date, we had entered into five off-take agreements as supplemented by several supplemental letters with five Independent Third Parties for the sale of magnesium ingots which would enable us to sell in aggregate, at least 17,000 tonnes per annum starting from a date not later than 30th June, 2009. These prospective customers comprise (i) Corus Metals (M) Sdn. Bhd., an indirect subsidiary of Tata Steel UK Limited, which is in turn ultimately controlled by Tata Steel Limited, a publicly listed company in India and the sixth largest steel company in the world; (ii) Hyosung Corporation, a publicly listed company in Korea; (iii) Jaka Resources Pte Ltd, a trader of commodities and a subsidiary of Millenium Energy Pte. Ltd, which in turn is a company incorporated under the laws of Singapore; (iv) Magnesium.Com, a company specialising in the design and manufacture of magnesium and aluminium components; and (v) Sumikin Bussan International (M) Sdn. Bhd., a subsidiary of Sumikin Bussan Corporation, a publicly listed company in Japan.

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Although the agreements are expressed to be legally binding, it is envisaged that there will be some degree of flexibility to settle certain supplementary terms such as the precise delivery schedules and purchase quantities. The Directors consider that it is not uncommon for plants that are not yet in operation to sign off-take agreements on broader terms and finalise certain details with the prospective customers at a time closer to the target date of commercial production. The Directors believe a “buffer” of 10% to 20% above the production capacity of the Perak Magnesium Smelter is reasonable in anticipating the finalised demand of the prospective customers. The Directors anticipate that they will be able to settle any further detailed terms on the timing for quantities deliverable (or, as necessary, reduced annual delivery quantities) so as to match production capacity to demand. To this end, we are in close contact with the prospective customers to ensure they are informed of the construction progress of the Perak Magnesium Smelter on a regular basis. We are also negotiating additional off-take agreements with new prospective customers. In light of the notable growth in primary magnesium price and global magnesium consumption in recent years, the Directors are confident that the first production line with an estimated annual production capacity of 15,000 tonnes can satisfy the demand of our prospective customers upon the commencement of its operation. Having considered the recent global economic crisis, our Directors will continue to closely monitor the market development and update our prospective customers with the latest market information.

Subject to the then actual demand of the prospective customers, any additional off-take agreements secured by CVM and the prevailing market conditions, if the need arises, CVM may construct the second production line with an estimated annual production capacity of 15,000 tonnes of magnesium ingots in order to fill the orders to be placed by all the prospective customers under the off-take agreements.

DIRECTORS AND SENIOR MANAGEMENT

We have a management team, comprising, principally, three executive Directors and three senior managers, which we believe possesses the requisite mining experience to operate the CVM Project. This experience has been derived, in some cases, from many years of involvement in the magnesium production business, aside from participation in the CVM Project, and, in other cases, from the various elements of the CVM Project itself, which has been pursued for more than four years, and which has been supplemented by other experience and activities which we consider to be directly relevant to the successful implementation and commercialisation of large-scale, resource-driven projects such as the CVM Project.

We believe that our Directors and senior management, together, have the requisite blend of talent, experience and expertise necessary to bring the CVM Project to commercial production. Mr. Chong Wee Chong, our executive Director and Chief Executive Officer, has worked on the CVM Project for more than four years and before that, worked on natural resources projects in Malaysia and infrastructure projects in the PRC. During his involvement in certain highways projects in the PRC, he gained two years of experience in managing quarry operations for the supply of rock for these projects. Mr. Chong is in charge of the overall strategic planning and decision making in respect of the Perak Magnesium Smelter. Our Board believes that the contributions of Mr. Chong are instrumental to the decision of CVM to pursue the CVM Project. Mr. Gao Qi Fu, our executive Director for Mining and Exploration, Mr. Zhou Wu, our Head of Mining and Exploration and Mr. Wen Guo Qiang, our Head of Magnesium Smelting, have

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extensive experience of mining and smelting magnesium in the PRC. Mr. Gao, Mr. Zhou and Mr. Wen also assisted us, in conjunction with the SAMI team in China, in relation to SAMI's feasibility study, in December 2004, as regards the suitability and economic value of the mining assets at the Dolomite Land and the technical issues in relation to the construction of a magnesium smelter. Our Board considers that the full-time participation of Mr. Gao, Mr. Zhou and Mr. Wen in the CVM Project going forward will be to the Company's significant benefit. Please refer to the detailed biographies of Mr. Chong, Mr. Gao, Mr. Zhou and Mr. Wen in the section headed "Directors and Senior Management" in this prospectus.

In addition to Mr. Chong, Mr. Gao, Mr. Zhou and Mr. Wen, our senior management team includes Mr. Lim Ooi Hong, our executive Director for Special Projects, who has also worked on the CVM Project for more than four years and who has prior experience of undertaking feasibility studies and business development activities in respect of mineral projects on behalf of HWGB when he was an executive director of HWGB and Mr. Ha Bin Khean, our Head of Finance, whose financial and accounting knowledge predates his joining the CVM Project taskforce in December 2005. Please refer to the detailed biographies of Mr. Lim and Mr. Ha in the section headed "Directors and Senior Management" in this prospectus.

The blend of management experience will, we believe, drive the successful commercialisation of the CVM Project. The project, itself, has been substantially advanced over the course of the past four years and the experience derived from that process, we believe, has further enhanced the capability of our management team. In particular, Mr. Chong and Mr. Lim, who already possessed strong general commercial backgrounds and the relevant exploration experience in other mineral sectors, were able to supplement that experience with the direct knowledge and experience that has come from aspects of the CVM Project to date, such as the identification and testing of the Dolomite Hills, appointing and working with the Quarry Contractor in preparation for the full-scale quarrying of dolomite, the many steps associated with design and build of the Perak Magnesium Smelter and conclusion of off-take agreements to sell the magnesium ingots to be produced at the Perak Magnesium Smelter.

Much of the day-to-day responsibility for the quarrying and smelting activities will, we intend, fall to Mr. Gao, Mr. Zhou and Mr. Wen given their material past experience of magnesium smelting activities in the PRC. This experience has included academic background in metallurgy and engineering, knowledge of the properties of dolomite and the comparatively simple processes of quarrying dolomite, and the design, management and operation of magnesium smelting plants. Mr. Chong will continue to make all strategic and important business decisions in respect of the operations and management of the Perak Magnesium Smelter.

We therefore believe that our Directors and senior management have sufficient and satisfactory experience, of at least three years of magnesium (or similar) exploration and production activities.

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COMPETITIVE STRENGTHS

We believe that our potential for successful business development is primarily due to a combination of the following strengths:

- **We have a strong and experienced management team**

Our Directors and senior management have relevant experience derived from previous direct involvement in both our operations and other mineral, natural resources or infrastructure projects, including the setting-up of new magnesium smelting plants in the PRC. Among our Board and senior management, we have members who have extensive mining experience and management expertise. Some members of our management team are familiar with the local operating environment in Malaysia and have experience in managing publicly listed companies. Some of them have extensive experience in the magnesium industry in the PRC. We believe that we will be able to attract and retain our Directors and senior management staff with, amongst other things, competitive remuneration packages, a good working environment and a continuous training programme. Details of the experience of our Directors and our management team are set out in the section headed “Directors and Senior Management” in this prospectus.

- **We are able to benefit economically from a large magnesium reserve**

Our Group will be engaged in upstream magnesium mining activities and the production of magnesium ingots. Based on the estimation of UKM, the Dolomite Hills have total dolomite reserves of approximately 20,005,480 tonnes (including the underground reserves). According to the NERI Report, the Dolomite Hills are capable of supplying sufficient dolomite to the Perak Magnesium Smelter for the purpose of manufacturing magnesium ingots with an estimated annual production capacity of 30,000 tonnes for approximately 58 years (or approximately 116 years with an estimated annual production capacity of 15,000 tonnes of magnesium ingots).

Having direct access to magnesium reserve ensures that we will have a stable supply of primary magnesium. We will also be in a better position to control our production costs and to react promptly to our prospective customers’ needs with a view to maximising our profitability after the commencement of operations of the Perak Magnesium Smelter.

- **We are committed to the long term success of the CVM Project**

CVM has made a substantial investment in the CVM Project totalling approximately HK\$207.9 million up to 30th September, 2008 in the CVM Project. Save for the repayment of the New CVM Project Finance Loan to Bank Rakyat and the secondary finance to KFHMB and the payment of the minimum amount of royalties of RM30,000 (equivalent to approximately HK\$67,797) per month to HPC for the duration of the Mining Agreement, our Directors believe that we will not have any material commitments after the 24 month period from the date of this prospectus in relation to the first production line of the Perak Magnesium Smelter. Please refer to the detailed breakdown of historical and planned future capital expenditure in the section headed “Financial Information” in this prospectus for

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further details of our capital expenditure. We are committed to achieving full operations and generating profits at the earliest opportunity. To this end, we have already secured financial support from Bank Rakyat and KFHMB by virtue of the New CVM Project Finance Loan and the secondary finance facilities respectively to finance the construction of the Perak Magnesium Smelter and appointed professional contractors and consultants to oversee the construction of infrastructure and the logistics support systems of the Perak Magnesium Smelter. Our principal Shareholders and management team are determined to turn the Group into a leading and prominent magnesium producer in South East Asia.

- **We have established business relationships with prospective customers of good standing**

We have already signed off-take agreements for a substantial quantity of magnesium ingots with five different entities in the steel alloy industry and other industries, some of which are well-known publicly listed corporations. There is no fixed expiry date for our supply of magnesium ingots under most of these off-take agreements and they are intended to remain valid as long as we continue to do business with these prospective customers. This should ensure a steady demand for our products after the Perak Magnesium Smelter becomes fully operational. Should we secure business from additional prospective customers in the near future, we believe we have the capacity and resources to expand the size of the Perak Magnesium Smelter by constructing the second production line with an estimated annual production capacity of magnesium ingots of a further 15,000 tonnes to cater for potential growth of demand from our prospective customers.

- **The local economic policies are favourable to us**

Manufacturing of non-ferrous metals, such as primary ingots, is a promoted activity and product currently encouraged by the Malaysian government through MIDA. On 11th December, 2007, CVM was approved by MIDA for special incentives, which exempted CVM from statutory income tax pursuant to the Malaysian Income Tax (Exemption) (No. 11) Order 2006 for manufacturing of magnesium ingots and magnesium alloy for a period of 10 years commencing from a date to be determined by MITI, subject to certain conditions set out in the section headed “Financial Information” in this prospectus. Accordingly, the local economic policies of the federal government of Malaysia are currently supportive of the development of the manufacturing of magnesium ingots. The CVM Project is also expected to attract local and foreign technicians and bring more employment opportunities to the local workforce. We believe that the CVM Project will contribute to the social and economic development in Malaysia, especially in the State of Perak.

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WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.05 of the Listing Rules in accordance with Rule 18.03 of the Listing Rules. According to Rule 8.05 of the Listing Rules, an issuer must satisfy one of the three tests in relation to (i) profit; (ii) market capitalisation, revenue and cash flow; or (iii) market capitalisation and revenue requirements. Chapter 18 of the Listing Rules applies to mineral companies. Under Rule 18.03 of the Listing Rules, the requirements of Rule 8.05 of the Listing Rules may be waived if the Stock Exchange is satisfied that our directors and management of the issuer have sufficient and satisfactory experience of at least three years in mining and, or exploration activities.

We have also applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of regarding management presence in Hong Kong.

For details of our waiver application, please refer to the section headed “Waiver from Strict Compliance with the Listing Rules” in this prospectus.

RESULTS OF OPERATIONS

As we are yet to commence revenue earning operations but have engaged in feasibility studies and construction of the Perak Magnesium Smelter, for the three financial years ended 31st December, 2007 and the five months ended 31st May, 2008, we have incurred an audited net loss of HK\$618,472, HK\$1,563,989, HK\$2,682,080 and HK\$2,848,499, respectively. However, as at the Latest Practicable Date, we had entered into five off-take agreements with five prospective customers who are Independent Third Parties for the sale of magnesium ingots. We expect to commence revenue generating business activities upon the completion of the construction of the Perak Magnesium Smelter in or about March 2009.

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The following table sets out selected financial data which are extracted from our combined financial statements over the Track Record Period as set out in “Appendix I — Accountants’ Report” to this prospectus.

Combined Income Statement

	Year ended 31st December,			Five months ended 31st May,	
	2005	2006	2007	2007	2008
	HK\$	HK\$	HK\$	HK\$	HK\$
	<i>(unaudited)</i>				
Turnover	—	—	—	—	—
Other operating income	7,792	—	—	—	—
Other net loss	—	—	(74,394)	—	—
Administrative expenses	(626,264)	(1,551,036)	(2,583,335)	(666,662)	(2,832,609)
Loss from operations	(618,472)	(1,551,036)	(2,657,729)	(666,662)	(2,832,609)
Finance costs	—	(12,953)	(24,351)	(8,133)	(15,890)
Loss before taxation	(618,472)	(1,563,989)	(2,682,080)	(674,795)	(2,848,499)
Income tax	—	—	—	—	—
Loss for the year/period	<u>(618,472)</u>	<u>(1,563,989)</u>	<u>(2,682,080)</u>	<u>(674,795)</u>	<u>(2,848,499)</u>
Dividends	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Loss per share <i>(Note)</i>					
— basic	(3.95)	(0.21)	(0.09)	(0.02)	(0.09)
Weighted average number of ordinary shares on issue during the year/period used in the basic loss per share calculation	156,630	7,518,714	31,000,000	31,000,000	31,000,000

Note: There were no dilutive potential ordinary shares during the three years ended 31st December, 2005, 2006 and 2007 and the five months ended 31st May, 2007 and 2008 and, therefore, diluted loss per share is not presented.

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FINANCING OF THE CVM PROJECT

In order to finance the development of the CVM Project, CVM obtained the Old CVM Project Finance Loan from BPMB on 20th September, 2006 and the secondary finance from KFHMB on 3rd July, 2008. On 22nd September, 2008, the New CVM Project Finance Loan was obtained from Bank Rakyat to replace the Old CVM Project Finance Loan. According to the Old Facility Agreement, the Old CVM Project Finance Loan comprised a bank guarantee facility, convertible into a term loan facility, of RM115 million (equivalent to approximately HK\$259.9 million) (“tranche 1”), and a term loan facility of RM27 million (equivalent to approximately HK\$61 million) (“tranche 2”).

Up to 26th September, 2008 when the Old CVM Project Finance Loan was redeemed and refinanced by the New CVM Project Finance Loan referred to below, we had drawn down approximately RM26.6 million (equivalent to approximately HK\$60.1 million) of the tranche 2 facility and applied it towards the purchase of the Smelter Land, perimeter security fencing, soil improvement works and infrastructure works of the Perak Magnesium Smelter.

In addition, on 3rd July, 2008, CVM obtained secondary finance facilities totalling RM115.6 million (equivalent to approximately HK\$261.2 million) from KFHMB. The secondary finance facilities are secured by, amongst other things, a corporate guarantee by the Company in favour of KFHMB.

In contemplation of the Reorganisation and the Listing, on 20th June, 2008, CVM applied to BPMB to seek the bank’s approval on the Company being the sole shareholder and holding company of CVM after the Reorganisation, the borrowing by CVM of a short term loan of US\$5 million (equivalent to approximately HK\$39 million) from DBS Bank Ltd. to repay advances from HWGB prior to the Listing and the substitution of HWGB with the Company as the corporate guarantee under the Old CVM Project Finance Loan upon the Listing. On 18th July, 2008, the Company received a letter from BPMB rejecting the Company’s application without stating the reasons for the rejection.

To ensure that we have the means to finance the construction of the Perak Magnesium Smelter, on 22nd September, 2008, CVM and Bank Rakyat entered into the New Facility Agreement under which CVM secured the New CVM Project Finance Loan from Bank Rakyat for a total amount of RM147 million (equivalent to approximately HK\$332.2 million), comprising a bank guarantee facility of RM115 million (equivalent to approximately HK\$259.9 million), convertible into a term financing facility of up to RM117,776,560 (equivalent to approximately HK\$266.2 million) (“facility A”), and a term financing facility of RM32 million (equivalent to approximately HK\$72.3 million) (“facility B”). The secondary finance facilities provided by KFHMB remain in place and are secured by, amongst other things, a corporate guarantee by the Company. The secondary finance facilities provided by KFHMB were previously also secured by a bank guarantee dated 16th June, 2008 by BPMB, which was replaced by the bank guarantee dated 26th September, 2008 under facility A by Bank Rakyat, of which KFHMB is the beneficiary.

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Included in facility A is the sum of RM115 million (equivalent to approximately HK\$259.9 million) which is to guarantee the payment of KFHMB for the construction of the Perak Magnesium Smelter and the purchase of equipment for its development in accordance with the EPC Contract and a sum of up to RM2,776,560 (equivalent to approximately HK\$6.3 million) which is for bank guarantee charges payable by CVM. The bank guarantee charges are converted to form part of the principle term financing facility under facility A.

The purpose of facility B is to redeem the Old CVM Project Finance Loan and to finance the balance of the site infrastructure and soil improvement work under the CVM Project.

As at the Latest Practicable Date, the Old CVM Project Finance Loan has been fully redeemed and a total amount of approximately RM30.0 million (equivalent to approximately HK\$67.8 million) had been drawn down under facility B of the New CVM Project Finance Loan.

Since 16th June, 2008 when BPMB granted KFHMB the bank guarantee under tranche 1 of the Old CVM Project Finance Loan and up to the Latest Practicable Date, we had drawn down approximately RM26.6 million (equivalent to approximately HK\$60.1 million) under the secondary finance provided by KFHMB. We will continue to draw down monies under the secondary finance of KFHMB until the completion of the Perak Magnesium Smelter in or about March 2009 when the bank guarantee issued by Bank Rakyat to KFHMB is converted into the term loan financing facility under facility A.

Following the decision to replace the Old CVM Project Finance Loan with the New CVM Project Finance Loan, CVM continued to utilise the secondary finance loan from KFHMB instead of utilising the New CVM Project Finance Loan as the secondary finance loan from KFHMB has been progressively drawn down prior to CVM obtaining the New CVM Project Finance Loan. In such case, CVM tried to minimise the interruption to the releasing funds to the contractors in order to avoid further delay to the completion of the CVM Project. Accordingly, the New CVM Project Finance Loan was structured in a manner similar to the Old CVM Project Finance Loan and intended to be utilised in conjunction with the secondary finance of KFHMB.

Pursuant to the terms of the New Facility Agreement, we are subject to financial covenants by virtue of the FSCR. We are required to ensure that the FSCR shall not be less than 1.5 times at all times throughout the tenure of the New CVM Project Finance Loan beginning 12 months after the operational commencement of the Perak Magnesium Smelter. We also need to ensure that in the event that the Company wishes to declare dividends, the FSCR (before and after declaration of dividends) on a consolidated group basis shall not be less than 1.5 times on the first year and not less than 2.0 times from the second year of the commencement of operations of the Perak Magnesium Smelter onwards. The FSCR may restrain our ability to repay our outstanding loan and distribute dividends to our Shareholders.

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In addition, pursuant to the New Facility Agreement, Bank Rakyat reserves the right to review, recall, cancel or change the terms and conditions of the New Facility Agreement as and when it deems necessary at its absolute discretion. Pursuant to the master facilities agreement, KFHMB may also at any time at its absolute discretion, vary and, or add the terms of the agreement, including but not limited to the profit rate, additional charges, compensation charges, and other charges stated in there, and the amount or form of the facilities granted or to cancel one or more facilities or to create two or more from the secondary facilities.

Major terms of the Old CVM Project Finance Loan, the secondary finance of KFHMB and the New CVM Project Finance Loan are summarised in the section “Business — Financing of the CVM Project” in this prospectus. Please also refer to the section headed “Risk Factors” in this Prospectus for the risk factors relating to our reliance on the New CVM Project Finance Loan and the secondary finance of KFHMB and the impact of the financial covenants on our ability to repay our outstanding loan and distribute dividends.

EXPLORATION RIGHTS

Pursuant to the Mining Agreement, CVM was granted the Mining Right at no initial cost, a commercial decision mutually agreed upon between the parties to the Mining Agreement. Expenditures of HK\$1,874,299, HK\$773,068, HK\$449,019 and HK\$nil have been incurred on exploration activity and capitalised as exploration and evaluation assets for the three years ended 31st December, 2007 and the five months ended 31st May, 2008 respectively. The amounts of exploration expenditure for the Track Record Period mainly represented the accumulated capital expenditure we spent on the feasibility studies conducted by us in identifying the reserves in the Dolomite Hills as well as the dolomite testing and reserve estimation (including professional fees paid to UKM). As at 31st May, 2008, the accumulated cost of exploration and evaluation assets as disclosed in note 10 of the Accountant’s Report set out in Appendix I to this prospectus was HK\$3.9 million which was significantly lower than the capital expenditure of HK\$153.5 million we have already incurred on the construction of the Perak Magnesium Smelter (separately we have incurred approximately HK\$1.2 million on motor vehicles and furniture and fittings out of the total capital expenditure of approximately HK\$158.6 million on the CVM Project as at 31st May, 2008).

The lower proportion of our exploration and evaluation costs over our total estimated capital expenditure compared to that of our capital expenditure on the Perak Magnesium Smelter is due to (i) no material initial cost of acquiring the Mining Right, as the Dolomite Hills were introduced to us by SEDC, which saved significant sampling and testing costs; (ii) the experience of our PRC Director (Mr. Gao Qi Fu) and senior managers (Mr. Zhou Wu and Mr. Wen Guo Qiang) in helping us identify the Dolomite Hills, which, coupled with the findings of the SAMI feasibility study report, saved us unnecessary costs in exploring and testing other dolomite hills in Malaysia; (iii) the knowledge of our Directors in Malaysia, Mr. Chong Wee Chong and Mr. Lim Ooi Hong, in project development and their familiarity with the local regulatory bodies and financial institutions, which also contributed to the low exploration and evaluation costs; and (iv) the relatively smaller size of the Dolomite Land as compared to sizes and scales of mining sites in

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other mineral projects (such as oil and gold). As we have already identified the Dolomite Hills, as at the Latest Practicable Date, we had not been engaged in other exploration activities and incurred further exploration and evaluation costs. This also resulted in the small amount of exploration and evaluation costs incurred by us up to the Latest Practicable Date.

Working Capital

Up to 31st May, 2008, we had incurred approximately HK\$158.6 million on the CVM Project, which comprised costs of property, plant and equipment of approximately HK\$154.7 million and exploration and evaluation costs of approximately HK\$3.9 million. The total planned future capital expenditure on the Smelter Land as at 31st May, 2008 was approximately HK\$292.0 million. Our total estimated capital cost for the CVM Project as at 31st May, 2008 was therefore approximately HK\$450.6 million. Please refer to notes 9, 10 and 20(a) to the Accountants' Report set out in Appendix I to this prospectus for further details. Please also refer to the paragraph headed "Historical and Planned Future Capital Expenditure" in the section headed "Financial Information" in this prospectus for a more detailed breakdown of capital expenditure incurred for the purpose of the CVM Project.

Up to 30th September, 2008, the balance of our historical capital expenditure on the CVM Project increased to approximately HK\$207.9 million and our total planned future capital expenditure on the Smelter Land was approximately HK\$242.7 million, of which approximately HK\$232.9 million has been contracted for. Our total estimated capital cost for the CVM Project as at the Latest Practicable Date remained at approximately HK\$450.6 million

Our estimated initial cash flow requirements for the period from 1st October, 2008 to 31st December, 2010, taking into account, amongst other things, our future planned capital expenditure of approximately HK\$242.7 million as at 30th September, 2008, the repayment of our bank facilities, the payment for professional expenses in relation to the Share Offer, cost of sales and administrative, selling and distribution expenses, are approximately HK\$1,108.3 million. We will continue to draw down money from the New CVM Project Finance Loan and the secondary finance of KFHMB and apply the proceeds from the Share Offer to the CVM Project and our daily operations until the Perak Magnesium Smelter is in full operation. As the construction of the Perak Magnesium Smelter is expected to be completed in or about March 2009, the CVM Project is not expected to generate any operating cash inflow for the year ending 31st December, 2008. We will begin to finance our operations with our internally generated resources from the financial year ending 31st December, 2009 onwards and, if required, additional debt or equity financing. We expect that after the commencement of operations of the Perak Magnesium Smelter, our Group will generate cash flow from the sale of magnesium ingots and clinker (as a by-product) and incur cash outflow for sales, marketing and administrative activities, repayment of the principals and interests of the New CVM Project Finance Loan as well as payment of dividends (if any). As we have already identified the Dolomite Hills, we do not expect to incur further sums for the purpose of exploiting reserves on a commercial scale until the first production line of the Perak Magnesium Smelter is expected to be at full capacity in the fourth quarter of 2009.

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Taking into account, amongst other things, our total historical and future planned capital expenditure of approximately HK\$450.6 million as at 30th September, 2008 and the estimated funds required for supporting our operations between 1st October, 2008 and the date of completion of the construction of the Perak Magnesium Smelter in or about March 2009, the working capital required to bring us into a position to earn revenue is approximately HK\$462.2 million.

Our Directors are of the view that our Group's existing credit lines including the bank facilities pursuant to the New CVM Project Finance Loan, together with our bank and cash balances, the estimated proceeds from the Share Offer and cash flow from operating activities including receipts from sale of magnesium ingots (on the basis that the average market price of magnesium will remain at around US\$3,200 per tonne throughout the period) will be sufficient to finance our Group's working capital for our present requirements, and for the period ending 24 months from the date of this prospectus in the absence of any unforeseeable circumstances.

On the basis, amongst other things, that the Perak Magnesium Smelter will be completed by the end of March 2009 and we will only be engaged in the production of magnesium ingots and clinker, as a by product, utilising the first production line with an estimated annual production capacity of 15,000 tonnes for the period from April 2009 to December 2010, based on our estimates, our cash receipts and cash payments during the period from 1st October, 2008 to 31st December, 2010 are as follows:

	Approximate amount
Cash and cash equivalent balance as at 30th September, 2008	HK\$713,762
Estimated cash receipts from 1st October, 2008 to 31st December, 2010 (<i>notes 1 and 2</i>)	HK\$1,195.1 million
Estimated cash payments from 1st October, 2008 to 31st December, 2010 (<i>note 3</i>)	HK\$1,108.3 million

Notes:

1. Estimated major cash receipts for the period include proceeds from the New CVM Project Finance Loan of approximately HK\$279 million in 2009 and the short term loan of US\$5 million (equivalent to approximately HK\$39 million) from DBS Bank Ltd., receipt from sales of approximately HK\$734 million, gross proceeds from the Listing of approximately HK\$133 million (based on the Offer Price of HK\$1.18 per Share and assuming the Over-allotment Option is not exercised) and staff training grant by MIDA of approximately HK\$3 million.
2. In respect of the estimated receipt from sales of magnesium ingots from April 2009 to December 2010, it is assumed, amongst other things, that the magnesium ingots will be sold at a constant selling price of US\$3,520 (equivalent to approximately HK\$27,456) per tonne, which represents a base price of approximately US\$3,200 per tonne multiplied by 110%, from April 2009 to December 2010. According to the off-take agreements entered into between our prospective customers and us, the price of the magnesium ingots to be charged by us will be 110% of the base price determined by the Metal Bulletin Index for Chinese magnesium of Mg99.90 and Mg99.95 in each calendar month during the term of each off-take agreement. In

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addition, the Perak Magnesium Smelter will run at 70% capacity in the second quarter of 2009, 95% capacity in the third quarter of 2009 and at full capacity thereon until December 2010 and the production output is fully taken up by prospective customers. It is also assumed that the sale of clinker accounts for approximately 7% of the total sales during the period.

3. Estimated major cash payments for the period represented future planned capital of approximately HK\$242.7 million as at 30th September, 2008, repayment of the New CVM Project Finance Loan and the short term loan of US\$5 million (equivalent to approximately HK\$39 million) from DBS Bank Ltd. (including interests), payment for professional expenses in relation to the Share Offer, cost of sales and administrative, selling and distribution expenses.

Save for the repayment of the New CVM Project Finance Loan to Bank Rakyat and the secondary finance to KFHMB and the payment of the minimum amount of royalties of RM30,000 (equivalent to approximately HK\$67,797) per month to HPC for the duration of the Mining Agreement, it is expected that upon the commencement of operations of the Perak Magnesium Smelter, we will not have any material commitments after the 24-month period from the date of this prospectus in relation to the first production line of the Perak Magnesium Smelter.

FUTURE PLANS AND PROSPECTS

The Company aims to become the first primary magnesium producer in the South East Asia. To the best knowledge of our Directors and NERI, there is no major magnesium producer in other countries in the South East Asia. The world's primary magnesium production is dominated by China, Russia, U.S., Israel and Brazil, which altogether accounted for all of the total world magnesium production of approximately 774,000 tonnes in 2007 according to CMA. As seen from the statistics in the section headed "Industry Overview" in this prospectus, in 2007, China alone produced approximately 85% of the total world output of magnesium and is currently the only country in Asia that produces magnesium. If the Group's quarrying and smelting activities proceed as planned, with an estimated production capacity of 15,000 tonnes of magnesium ingots per annum based on one line of production (and growing to an estimated production of 30,000 tonnes of magnesium ingots per annum based on two lines of production in the future), we believe that we will become one of the leading magnesium producers in South East Asia and will make a significant contribution to the world's primary magnesium production output.

In order to achieve our goal, we intend to implement the following business development strategies:

Running efficient mining and smelting operations

Upon the commencement of operation of the Perak Magnesium Smelter, we will also gear up our mining activities through the Quarry Contractor. We will ensure that the mining operations are carried out in accordance with sound safety standards and to a high level of environmental compliance. As part of our internal controls on the quarrying activities, our personnel will be stationed at the Dolomite Land to ensure that (i) the dolomitic limestones are properly quarried and processed to the required sizes by the Quarry Contractor; (ii) the dolomitic limestones are appropriately separated from other stones, by-products or waste products; (iii) the Quarry Contractor stores the dolomitic limestones properly and (iv) the

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Quarry Contractor transports the dolomitic limestones to the Perak Magnesium Smelter for further processing in a timely manner. We are also confident that we will be able to operate and manage the Perak Magnesium Smelter efficiently and manufacture magnesium ingots that meet the requirements of our prospective customers.

Focusing on the first production line of the Perak Magnesium Smelter

The Perak Magnesium Smelter will have the capacity to handle two production lines with an estimated annual production capacity of 15,000 tonnes of magnesium ingots each. However, the initial focus will be our first production line with an estimated annual production capacity of 15,000 tonnes of magnesium ingots. We believe that it is more prudent to focus on one as it will enable us to maximise product quality at the outset. Depending on, amongst other things:

- the level of demand for magnesium ingots from prospective customers which have already entered into or will enter into off-take agreements with us;
- the prevailing market prices of magnesium ingots and the raw materials; and
- the availability of funds, including internally generated resources, external borrowings and equity financing, to finance the construction of the second production line,

we will expand the operating scale of the Perak Magnesium Smelter by constructing the second production line with an estimated annual production capacity of 15,000 tonnes of magnesium ingots. When we have a concrete timetable and construction and production plans for the second production line, we will disclose the details by way of announcements and in our annual reports.

Expanding sales through diversifying our product line and establishing more sales channels

As we establish our market presence and commence the construction of the second production line, we will implement plans to develop more sales channels and secure more off-take agreements. Apart from the main product, magnesium ingots, the Perak Magnesium Smelter will also produce several by-products including fertilisers, clinker and other chemical and building material. It is currently the intention of our Directors to sell the clinker to cement producing companies in Malaysia through direct sales or traders. We also intend to expand our business in the sale of magnesium by-products as the Perak Magnesium Smelter becomes fully operational. In addition, we believe that magnesium has large market potential having regard to the wide variety of applications of magnesium and its advantages over other metals such as aluminium, as described in more detail in the section headed “Industry Overview” in this prospectus. We are committed to exploring market opportunities such as possible downstream activities including the manufacture of value added products like magnesium alloys.

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Maximising profits through vertical integration

After the construction of the second production line of the Perak Magnesium Smelter, we will seek to lower our costs of production and hence maximise our profits through acquiring upstream suppliers companies and, or construction of processing plants for key raw materials including flux and ferrosilicon used in the Perak Magnesium Smelter. We believe this will help to enhance our competitiveness and allow us to be in a position to control better the procurement activities of the Perak Magnesium Smelter.

It is forecast that the cost of each of ferrosilicon and flux will account for 38% and 5% respectively of the total costs of sale of CVM. We plan to allocate approximately HK\$15 million of the net proceeds from the Share Offer for the purchase of raw materials prior to the commencement of operations of the Perak Magnesium Smelter, following which we will finance the purchase of raw materials through other means such as internally generated resources. It is our current intention to look into the possibility of acquiring or setting up plants producing such raw materials especially for ferrosilicon, a significant component of CVM's operating costs, for better economies of scale.

As at the Latest Practicable Date, no acquisition targets had been identified by us. Neither is there any negotiation between us and any parties involved in other magnesium upstream activities, locally or outside Malaysia, in relation to any potential acquisition. We will also look into the possibility of setting up our own plants producing ferrosilicon and flux with a view to achieving cost efficiency and optimising our profitability after the construction of the second production line of the Perak Magnesium Smelter. Organic growth against acquisitions methods will also be evaluated in order to identify the best growth strategy for us.

The investment criteria that will be taken into account by us in selecting potential targets or business partners include, amongst other factors, the following:

- comparison of short and long-term cost efficiency between investing in other plants and importing raw materials;
- local economic factors which support plants processing minerals; and
- location of plants producing raw materials as this will affect the transportation cost.

Pursuing growth through acquisition of other dolomite reserves

We are confident in the development of the magnesium industry in view of the global supply and demand trends of magnesium in recent years and the positive outlook of the magnesium market. Besides, Perak and other parts of ASEAN countries (including Malaysia) have rich mineral resources and we believe that there are other dolomite hills in these areas where magnesium reserves can be found.

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Accordingly, in pursuit of the business development of our Group, we may acquire more dolomite reserves in Perak, other states of Malaysia and the ASEAN region.

As at the Latest Practicable Date, apart from the Dolomite Hills, we had not identified any acquisition targets. However, as dolomite reserves are considered important strategic assets for our future expansion, it is our current intention to maintain close contact with the State Government of Perak to explore suitable dolomite reserves as part of our business expansion plans. As the first production line of the Perak Magnesium Smelter is expected to be at full capacity in the fourth quarter of 2009, we will pursue further growth of our Group through acquiring mining concession rights in other states of Malaysia and other countries in the ASEAN region. Generally, we will take into account, amongst other things, the following factors in selecting suitable acquisition targets:

- the quality of dolomitic limestones, preferably those with MgO content of 18% to 21.7%;
- the proximity between the location of the Perak Magnesium Smelter and the area in which the target dolomite reserves are located as this will affect the transportation cost; and
- the costs associated with the acquisition of other dolomite reserves as compared to other future plans and any related holding cost.

Should we be able to identify suitable acquisition targets, we plan to fund our future acquisitions through internally generated resources, external borrowings, equity financing or a combination of these means.

We will continue to weigh growth opportunities against potential business risks and implement our expansion plans in the interest of our Shareholders.

SHARE OFFER STATISTICS

	Based on the Offer Price of HK\$1.18 per Share
Market capitalisation of the Shares ⁽¹⁾	Approximately HK\$532 million
Unaudited pro forma adjusted net tangible asset value per Share ⁽²⁾	HK\$0.35

Notes:

- (1) The calculation of the market capitalisation of the Shares is based on 451,000,000 Shares in issue immediately after the completion of the Share Offer but does not take into account any Shares which may be issued upon exercise

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of the Over-allotment Option or of any options which may be granted under the Post-IPO Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue and repurchase of Shares granted to our Directors as described in the paragraphs headed “Further information about the Company — Resolutions of the Shareholders” in Appendix VII to this prospectus.

- (2) The pro forma adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the paragraph headed “Unaudited pro forma adjusted net tangible assets” in Appendix II to this prospectus and on the basis of the audited net tangible assets of the Company as at 31st May, 2008. The number of Shares is based on a total of 451,000,000 Shares that were in issue and outstanding during the entire year, adjusted as if the Share Offer had occurred at 31st May, 2008 (but without taking into account any Shares which may fall to be issued upon the exercise of the Over-allotment Option).

DIVIDEND POLICY

It is the current intention of our Directors to distribute as dividends for each year of not less than 50% of our distributable profit for periods subsequent to the Share Offer and the commencement of profitable operations of the Perak Magnesium Smelter. However, there is no assurance as to whether the dividend distributions will occur as intended, the amount of the dividend payments or the timing of such payments. Cash dividends on our Shares, if any, will be paid in HK dollars. Our Directors expect that in the future, subject to our financial performance and compliance with the financial covenants under the New CVM Project Finance Loan, we will declare and pay two dividends in each financial year.

USE OF PROCEEDS

Our Directors believe that the Share Offer will raise the corporate profile and enhance the capital base of our Group, enabling us to expand further the scale and scope of our operations. On the assumption that the Over-allotment Option is not exercised, the net proceeds from the Share Offer, after deducting related expenses, are estimated to be approximately HK\$92 million (based on an Offer Price of HK\$1.18 per Share). Our Directors presently intend that the net proceeds from the Share Offer will be utilised in the following proportion:

	Amount <i>(approximate HK\$ million)</i>
Repayment of short term bank loans (<i>note 1</i>)	43
Payment of all relevant pre-operating expenses in relation to the implementation and development of the CVM Project	16
Purchase of raw materials (<i>note 2</i>)	15
Capital expenditure for the expansion and upgrade of the Perak Magnesium Smelter (<i>note 3</i>)	10
Other working capital purposes	8
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	92
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Notes:

1. An existing short term bank loan was used for settling advances from HWGB which were provided to us for working capital and other operational purposes prior to the Listing, particulars of which are set forth below:

Bank	Due date	Interest rate	Amount (USD)
DBS Bank Ltd., Labuan Branch	6 months from 9th October, 2008, being the first drawdown date	3% above the USD Singapore Interbank Offered Rate per annum	5,000,000
			<u>5,000,000</u>

2. The Company intends to apply part of the net proceeds from the Share Offer to the purchase of raw materials used in the magnesium production process, which include dolomite, ferrosilicon, refining flux and to a lesser extent, retort, after the commencement of operations of the Perak Magnesium Smelter. The purchase of raw materials forms part of our working capital requirements. We are able to obtain stable supply of dolomite pursuant to the Mining Agreement. We have also entered into long term supply contracts with Independent Third Parties for the purchase of the other two key raw materials, namely ferrosilicon and flux, to ensure stability of materials and continuity of supply. Please refer to the sections headed “Business — Mining Right” and “Business — Raw Materials and Suppliers” in this prospectus for further details.
3. Part of the net proceeds from the Share Offer will be used to upgrade our facilities, production capacity and operations of the Perak Magnesium Smelter, including but not limited to, the construction of the second production line with an estimated annual production capacity of approximately 15,000 tonnes, subject to prevailing market conditions.

In the event that the Over-allotment Option is exercised in full, the additional net proceeds of approximately HK\$20 million (based on an Offer Price of HK\$1.18 per Share) will be used for expansion and upgrade of the Perak Magnesium Smelter.

To the extent that the net proceeds from the Share Offer are not immediately used for the above purposes, it is the management’s present intention to place such proceeds in short-term demand deposits, money-market instruments or other forms of banking deposits.

RECENT GLOBAL ECONOMIC CRISIS

Since September 2008, the governments in the U.S., Hong Kong and other major countries in the world have introduced various financial assistance programs and rescue packages for the banking and financial systems designed to prevent or ameliorate a global recession. The recent economic crisis is perceived to have arisen out of and developed from the sub-prime mortgage crisis in the U.S., which began in early 2007 and which has caused the failure of mortgage companies, investment firms, banks and government sponsored enterprises that invested heavily in investment products backed by sub-prime mortgages. Moreover, the economic crisis has adversely affected the availability of credit in global lending markets and has manifested itself in significant downturns in stock markets throughout the world. As of the Latest Practicable Date, indexes of major stock exchanges in North America, Europe and the Asia-Pacific region show

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significant falls from the beginning of the year. Whilst governments around the world continue to introduce stimulus packages, economists and market analysts believe that the possibility of a global recession is increasing. In keeping with anticipated global trends, it is expected that the Malaysian economy will also cool on the basis of a slowdown in economic activity.

In view of global economic developments, our Directors have been monitoring the macro-economic environment. We are closely liaising with the EPC Contractor which has confirmed, despite a generally pessimistic economic outlook, that the construction of the Perak Magnesium Smelter is on schedule and our capital expenditure in relation to the EPC works has not increased up to 31st October, 2008. In addition, we have informed our prospective customers of the construction progress of the Perak Magnesium Smelter and we are also negotiating additional off-take agreements with new prospective customers. There has been no material adverse change in the financial position and, or our operations since 31st May, 2008.

As of the Latest Practicable Date, we were not engaged in any hedging transaction that would expose us to significant financial loss. With regard to our source of funding, in addition to the short term bank loan of US\$5 million (equivalent to approximately HK\$39 million) from DBS Bank Ltd., which was drawn down on 9th October, 2008, our unutilised banking facilities under the New CVM Project Finance Loan and the secondary finance amounted to HK\$205.7 million as of the Latest Practicable Date. Our Directors have not received any notification from Bank Rakyat and KFHMB that banking facilities under the New CVM Project Finance Loan and the secondary finance will not be available to us for the next 24 months after Listing.

In view of the foregoing, our Directors consider that our performance in the near future will not be severely jeopardised by the current weak economic sentiment. Our future plans and the proposed use of the net proceeds from the Share Offer, as set forth in the section headed “Future plans and use of proceeds” in this prospectus, will continue to be implemented as scheduled.

RISK FACTORS

We believe that there are certain risks involved in our operations, some of which are beyond our control. These risks can be broadly categorised into (i) risks relating to the business of our Group; (ii) risks relating to our mining and smelting operations; (iii) risks relating to the industry; (iv) risks relating to conducting operations in Malaysia and (v) risks relating to the Share Offer, as summarised below:

Risks relating to the business of our Group

- If there is any delay in the development of the CVM Project or in obtaining any major licences, permits and approvals, the value of the Shares could fall
- We have a limited operating history
- Reliance on a small number of prospective customers
- Risks associated with the existing off-take agreements

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- Reliance on the New CVM Project Finance Loan and the secondary finance of KFHMB
- The financial covenants under the New CVM Project Finance Loan may affect our ability to repay the outstanding loan and distribute dividends
- We are exposed to interest rates volatility prior to the commencement of operations of the Perak Magnesium Smelter
- Our Group could encounter difficulty in meeting its capital expenditure requirements in the future
- Our business operations may be adversely affected by our net current liability position
- We experienced net cash outflow from operating activities during the Track Record Period
- Fluctuations in the market price for magnesium could materially and adversely affect our Group's business and results of operations and hence our share price
- Fluctuations in exchange rates could materially and adversely affect our Group's operating cash flows and profitability
- Reliance on the EPC Contractor regarding the EPC works of the Perak Magnesium Smelter
- If we are unable to attract, retain and train key personnel, our business and operating results could be materially and adversely affected
- Our insurance coverage could be inadequate to satisfy potential claims
- Our operations are subject to extensive government regulations that could cause us to incur costs that may materially and adversely affect our business and operating results
- We may undertake strategic acquisitions or investments, which may prove to be difficult to integrate and manage or may not be successful
- We are dependent on the export market
- We may not be able to register our trademarks in Hong Kong or Malaysia
- We may be adversely affected by the recent economic crisis in the world

Risks relating to our mining and smelting operations

- Our operations are exposed to risks in relation to the mishandling of dangerous articles
- Our mining operations face material risks of liability, delays, environmental and industrial accidents, and other risks

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- Severe weather conditions could materially and adversely affect our mining operations
- We have outsourced the quarrying activities to the Quarry Contractor
- Any increase in the price of production inputs, including labour, power, mine consumables or other inputs could materially and adversely affect our Group's business and operating results
- Any increase in the cost of energy will have an adverse impact on our profitability
- We will depend on foreign workers
- We depend on our exclusive Mining Right and it may not be extended beyond 2039
- Concentration on one mining site
- Finite life of the Group's reserves in the Dolomite Land and the finite term of the Group's mining rights

Risks relating to the industry

- Changes in the laws and regulations relating to the mineral industry to which our Group is subject could materially and adversely affect our business and operating results
- Our Group's performance could be adversely affected by competition from other companies
- Players in our industry with exports to the U.S. market are susceptible to the recent economic downturn in the U.S.

Risks relating to conducting operations in Malaysia

- Political, economic and legal developments, as well as any changes in the Malaysian government policies, could materially and adversely affect our Group's business and operating results
- The Malaysian Ringgit may be subject to foreign exchange controls imposed by the Malaysian government in the future
- If we cease to receive favourable tax treatment from the Malaysian government, we may be subject to tax liability that could significantly affect our financial condition
- Restrictions on foreign investment in the Malaysian mineral industry could materially and adversely affect our Group's business and operating results

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- Our principal subsidiary is incorporated in Malaysia and our main assets are located in Malaysia. We, as the shareholder of CVM, may not be accorded the same rights and protection under the Malaysian company law that would be accorded under the Companies Ordinance. In addition, it could be difficult to enforce a Hong Kong judgement against our Malaysian subsidiary, our executive Directors and our executive officers
- Our ability to receive dividends and other payments from our subsidiary in Malaysia may be restricted
- We are subject to various laws and regulations in Malaysia
- We may not be able to comply with the conditions attached to the approvals of the EIA study or granted with approvals from the relevant Malaysian government authorities

Risk relating to the Share Offer

- The liquidity and market price of the Shares following the Share Offer could be volatile
- The market price of the Shares when trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins
- Forward-looking information included in this prospectus may not be accurate

Amongst the above risk factors, your attention is particularly drawn to the risk factors entitled “Reliance on the New CVM Project Finance Loan and the secondary finance of KFHMB”, “Fluctuations in the market price for magnesium could materially and adversely affect our Group’s business and results of operations and hence our share price” and “We may be adversely affected by the recent economic crisis in the world” which set forth the risks associated with our reliance on the New CVM Project Finance Loan and the secondary finance from KFHMB to finance the development of the CVM Project, the fluctuations in magnesium price and the likely impact on our business operations as a result of the recent economic crisis, respectively.