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 your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Ming Hing Waterworks Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer, 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 for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.

明興水務控股有限公司

MING HING WATERWORKS HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 402)

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN WELL DELIGHT HOLDINGS LIMITED INCLUDING THE ISSUE OF CONSIDERATION SHARES, CONVERTIBLE NOTE AND PROMISSORY NOTE; (2) PLACING OF NEW SHARES UNDER A SPECIFIC MANDATE; AND (3) INCREASE IN AUTHORISED SHARE CAPITAL

Financial adviser to Ming Hing Waterworks Holdings Limited

OPTIMA CAPITAL

Optima Capital Limited

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

SWS

Shenyin Wanguo Capital (H.K.) Limited

A letter from the Independent Board Committee of Ming Hing Waterworks Holdings Limited is set out on page 76 of this circular. A letter from Shenyin Wanguo Capital (H.K.) Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders of Ming Hing Waterworks Holdings Limited is set out on pages 77 to 105 of this circular.

A notice convening an extraordinary general meeting of the Company ("EGM") to be held at Unit 2402, 24/F., Admiralty Centre, Office Tower I, 18 Harcourt Road, Hong Kong on Friday, 28 May 2010 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you intend to attend the EGM of the Company, you are requested to complete 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 Investor Services 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 forty-eight hours before the time appointed for holding the meeting of the Company. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM of the Company or any adjournment of it, if you so wish.

12 May 2010

CONTENTS

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

"Acquisition"	the proposed acquisition of the Sale Shares by the Purchaser pursuant to the Acquisition Agreement
"Acquisition Agreement"	the conditional acquisition agreement dated 5 December 2009 entered into between the Purchaser and the Vendors in relation to the Acquisition (as supplemented and amended by the supplemental agreements dated 29 December 2009 and 7 May 2010)
"Announcement"	the announcement of the Company dated 29 December 2009 in relation to, among other things, the Acquisition, the Placing and increase in authorised share capital of the Company
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Best State"	Best State Holdings Limited, a company incorporated in the BVI with limited liability which holds 85% of the issued share capital of the Target Company
"BMITC"	BMI Technical Consulting, the independent technical adviser to the Company for the preparation of the Technical Report
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday or a Sunday) on which banks are generally open for banking business in Hong Kong
"BVI"	the British Virgin Islands
"CAGR"	the compound annual growth rate
"Camex GT"	Camex GT LLC, a company incorporated in Mongolia with limited liability and wholly-owned by Camex LLC
"Camex LLC"	Central Asia Mineral Exploration LLC, a company incorporated in Mongolia with limited liability and wholly-owned by Camex Pte
"Camex LLC Group"	Camex LLC and its subsidiaries

"Camex Pte"	Central Asia Mineral Exploration Pte. Ltd., a company incorporated in Singapore with limited liability and wholly-owned by the Target Company
"Camex Pte Group"	Camex Pte and its subsidiaries
"Company"	Ming Hing Waterworks Holdings Limited, a company incorporated in Cayman Islands with limited liability, the issued Shares of which are listed on the main board of the Stock Exchange
"Compensation"	a maximum amount of HK$3,100 million (subject to adjustment) which may be payable by the Purchaser subject to the Second Valuation Report and the Second Technical Report
"Compensation Note"	a convertible note in the maximum principal amount of HK$3,100 million (subject to adjustment) initially repayable in 5 years from the date of issue (subject to a right of the Company to extend for another 5 years), with the conversion price being HK$0.31 (subject to adjustment), which may be issued by the Company for settlement of the Compensation
"Completion"	the completion of the Acquisition in accordance with the Acquisition Agreement
"Completion Date"	the date on which the Completion occurs
"connected person"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the consideration of HK$1,937.5 million payable in respect of the Acquisition pursuant to the Acquisition Agreement
"Consideration Share(s)"	an aggregate of 1,970 million new Shares to be allotted and issued by the Company to Best State (or its nominee) at the Issue Price at Completion pursuant to the Acquisition Agreement
"Conversion Share(s)"	up to 14,336,818,182 new Share(s) (subject to adjustment) having a par value of HK$0.05 each in the capital of the Company, to be allotted and issued to the holders of the Convertible Note and Compensation Note by the Company upon exercise by the holder(s) of the conversion rights attached to the Convertible Note and Compensation Note

"Convertible Note"	a convertible note in the principal amount of HK$954,100,000 initially repayable in 5 years from the date of issue (subject to a right of the Company to extend for another 5 years), with the conversion price being HK$0.22 (subject to adjustment), to be issued by the Company as part of the Consideration
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving, inter alia, (i) the Acquisition Agreement and the transactions contemplated thereunder and the allotment and issue of the Consideration Shares and the Conversion Shares, the issue of the Promissory Note, the Convertible Note and the Compensation Note; (ii) the Placing and the allotment and issue of the Placing Shares; and (iii) the proposed increase in authorised share capital of the Company
"Enlarged Group"	the Group as enlarged by the Acquisition after Completion
"Escrow Agent"	Standard Chartered Bank (Hong Kong) Limited
"Escrow Agreement"	the escrow agreement dated 9 March 2010 entered into among the Escrow Agent, the Company and the Placing Agent pursuant to the Placing Agreement
"Grand Title"	Grand Title Limited, a company incorporated in BVI with limited liability and wholly-owned by Camex Pte
"Grand Title MOU"	a memorandum titled "memorandum of understanding on economic cooperation" signed between the Ministry of Road, Transportation, Construction and Urban Development of Mongolia and Grand Title Limited on 15 April 2009 in respect of the implementation in Mongolia of construction, housing, and infrastructure development projects with the provision of mining concessions
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	a committee of the Board comprising all the independent non-executive Directors, namely Professor LEUNG Yee Tak, Mr. LIAO Cheung Tin, Stephen and Mr. WONG Lap Shek, Eddie, established for the purpose of advising and giving recommendation to the Independent Shareholders in relation to the Acquisition

"Independent Shareholders"	the Shareholders other than Mr. Wong, the Vendors and their respective associates and those who are involved in or interested in the Acquisition
"Independent Third Party(ies)"	the independent third party(ies) who is/are, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, independent of the Company and connected persons of the Company
"Initial Conversion Price"	the initial conversion price of HK$0.22 for each Conversion Share to be allotted and issued upon conversion of the Convertible Note
"Issue Price"	the issue price of HK$0.22 for each Consideration Share
"Kcal"	Kilocalorie, a unit of energy
"Kores"	Kores Mongolia LLC, a company incorporated in Mongolia with limited liability and owned as to 70% by Camex LLC and 30% by an Independent Third Party
"Last Trading Day"	4 December 2009, being the last trading day for the Shares before the date of the Announcement
"Latest Practicable Date"	7 May 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Licences"	the Major Licences and the Other Licences
"Listing Committee"	shall have the same meaning as is in the Listing Rules
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Major Licences"	the four mining licences in respect of the TNE Mine, being the licences numbered 228A, 13533A, 13553A and 15429A (which was converted from the exploration licence numbered 9488X on 22 January 2010)
"Memorandum of Understanding"	the memorandum of understanding entered into by the Company on 12 November 2009 in relation to the possible acquisition of the equity interest in a company which would hold ownership and interests in certain mining sites located in Mongolia with coal, gold and copper deposits

"Mines"	the TNE Mine and Other Mines
"Mineral Resources"	mineral resources contained in the Mines
"Mr. Wong"	Alex Wong Ching Ping, being the sole beneficial owner of Sino Access and interested in 40% of the issued share capital of Best State
"Options"	53,800,000 outstanding share options which were granted by the Company under the share option scheme adopted by the Company on 25 February 2006 pursuant to which the holder of each option is entitled to subscribe for one Share upon exercise of such option
"Other Licences"	the exploration licences in respect of the Other Mines, being the licences numbered 7173X, 7176X, 7367X, 7368X, 13189X, 13661X and 13662X
"Other Mines"	the three mines with coal, gold and copper deposits located in Mongolia, being the subjects of the Other Licences
"Placing"	the conditional placing of not less than 3,800,000,000 and not more than 4,000,000,000 Placing Shares pursuant to the terms of the Placing Agreement on a best effort basis
"Placing Agent"	Yuanta Securities (Hong Kong) Company Limited, a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
"Placing Agreement"	the conditional placing agreement entered into between the Company and the Placing Agent dated 24 December 2009 (as supplemented and amended by supplemental agreement dated 9 March 2010) in relation to the Placing
"Placing Completion"	completion of the Placing
"Placing Completion Date"	the second Business Day following the day on which the conditions of the Placing are fulfilled (or waived, as the case may be) or such other date as the Company shall agree in writing
"Placing Price"	HK$0.12 per Placing Share
"Placing Shares"	being not less than 3,800,000,000 and not more than 4,000,000,000 new Shares to be placed by the Placing Agent pursuant to the terms of the Placing Agreement

"PRC"	the People's Republic of China, which, for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Processing Plant"	the processing plant with three gasifiers for smokeless fuel product built within the boundaries of the TNE Mine, together with other related superstructure thereto
"Promissory Note"	a zero coupon promissory note in the principal amount of HK$350 million to be issued by the Company to Sino Access (or its nominee) for payment of part of the Consideration which will be due on the second anniversary from the date of issue
"Purchaser"	Brave Lion Investments Limited, a company incorporated in BVI with limited liability, which is an indirect wholly-owned subsidiary of the Company
"Robinhoods"	Robinhoods Development Limited, which is owned as to one third by Able Promise Holdings Limited (a company wholly-owned by Mr. YUEN Chow Ming), as to one third by Group Honour Assets Limited (a company wholly-owned by Mr. SO Yiu Cheung) and as to the remaining by Foremost Time Holdings Limited (a company wholly-owned by Mr. YUEN Wai Keung)
"Robinhoods Concert Group"	Robinhoods, its associates and parties acting in concert with it, including Mr. YUEN Chow Ming, Mr. SO Yiu Cheung and Mr. YUEN Wai Keung, all of whom are executive Directors
"Sale Shares"	the 1,000 shares of US$1.00 each in the share capital of the Target Company as at the date of the Acquisition Agreement
"Second Technical Report"	the technical report (to be conducted in compliance with the requirements under Chapter 18 of the Listing Rules) in respect of the Other Mines issued by an independent technical adviser acceptable to the Purchaser
"Second Valuation Report"	the valuation report on the fair value of Camex LLC and its subsidiaries (excluding TNE) or the value of the Other Licences issued by an independent professional valuer acceptable to the Purchaser
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)

"Share(s)"	ordinary share(s) of HK$0.05 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Shenyin Wanguo"	Shenyin Wanguo Capital (H.K.) Limited, a licensed corporation to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities (as defined in the SFO), the independent financial adviser to the Independent Board Committee and Independent Shareholders in relation to the Acquisition
"Sino Access"	Sino Access Holdings Ltd., a company incorporated in the BVI with limited liability which holds 15% of the issued share capital of the Target Company
"Six Individuals"	being Mr. Tan Kah Hock, Mr. Lim Siong Dennis, Mr. Yeo Cheow Tong, Mr. Mashbat Bukhbat, Mr. Batsukh Yadamsuren and Miss Lim Shi Hui, Celestina, together interested in 60% of the issued share capital of Best State
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Well Delight Holdings Limited, a company incorporated in BVI with limited liability and owned as to 15% by Sino Access and 85% by Best State
"Target Group"	the Target Company and its subsidiaries
"Technical Report"	the independent technical report prepared by BMITC for the TNE Mine as contained in Appendix IV to this circular
"TNE"	Tugrugnuuriin Energy LLC, a company incorporated in Mongolia with limited liability and wholly-owned by Camex LLC
"TNE Mine"	the coal mine located in Mongolia, being the subject mine of the Major Licences
"Valuation Report"	the independent valuation report prepared by BMI Appraisals Limited as contained in Appendix V to this circular
"Vendors"	Sino Access and Best State

"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"MNT"	Mongolian Tugrik, the lawful currency of Mongolia
"SG$"	Singapore dollar(s), the lawful currency of Singapore
"US$"	United States dollar(s), the lawful currency of the United States of America

For the purpose of illustration only, (i) amounts denominated in US$ have been translated into HK$ at the rate of US$1 = HK$7.75; (ii) amounts denominated in MNT have been translated into HK$ at the rate of 1MNT = HK$0.0054; and (iii) amounts denominated in SG$ have been translated into HK$ at the rate of SG$1=HK$5.529. Such translation should not be construed as a representation that the amounts quoted could have been or could be or will be converted at the stated rate or at any other rates at all.

明興水務控股有限公司
MING HING WATERWORKS HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)
(Stock Code: 402)

Executive Directors:
Mr. YUEN Chow Ming *(Chairman)*
Mr. YUEN Wai Keung
(Deputy Chairman and Chief Executive Officer)
Mr. SO Yiu Cheung *(Deputy Chairman)*
Mr. CHEUNG Chi Man, Dennis
Mr. HO Hin Hung, Henry

Independent non-executive Directors:
Professor LEUNG Yee Tak
Mr. LIAO Cheung Tin, Stephen
Mr. WONG Lap Shek, Eddie

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

Head office and principal place of business in Hong Kong:
Units 1809-1812
Telford House
16 Wang Hoi Road
Kowloon Bay
Hong Kong

12 May 2010

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN WELL DELIGHT HOLDINGS LIMITED INCLUDING THE ISSUE OF CONSIDERATION SHARES, CONVERTIBLE NOTE AND PROMISSORY NOTE; (2) PLACING OF NEW SHARES UNDER A SPECIFIC MANDATE; AND (3) INCREASE IN AUTHORISED SHARE CAPITAL

INTRODUCTION

On 5 December 2009, the Purchaser and the Vendors entered into the Acquisition Agreement pursuant to which the Vendors conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Sale Shares at the Consideration of HK$1,937.5 million. The Sale Shares represent the entire issued share capital in the Target Company. As at the Latest Practicable Date, the Target Group held the Major Licences and the Other Licences for the TNE Mine and the Other Mines in Mongolia with coal, gold and copper deposits. The Consideration was determined after arm's length negotiations between the Company and the Vendors by reference to, among other things, the estimated value of the Major Licenses held by TNE. Moreover, pursuant to the Acquisition Agreement, the Purchaser shall procure the Company to issue the Compensation Note (subject to a maximum principal amount of HK$3,100 million) to Best State (or its nominee) in case the value of Camex LLC Group (excluding TNE) or the value of the Other Licences as shown in the Second Valuation Report, which shall be delivered within eight months after the Completion Date, is being not less than HK$1,550 million. Accordingly, the maximum amount to be paid by the Purchaser, being the aggregate of the Consideration and the maximum of the Compensation amount, under the Acquisition Agreement amounted to HK$5,037.5 million. The Acquisition constitutes a very substantial acquisition and connected transaction of the Company under the Listing Rules, which is therefore subject to the approval of the Independent Shareholders by way of poll.

Moreover, on 24 December 2009, the Company and the Placing Agent entered into the Placing Agreement whereby the Company has conditionally agreed to place through the Placing Agent, on a best effort basis, not less than 3,800,000,000 and not more than 4,000,000,000 Placing Shares to independent placees at a price of HK$0.12 per Placing Share.

The Board also proposes to increase the Company's authorised share capital from HK$100,000,000 divided into 2,000,000,000 Shares to HK$2,500,000,000 divided into 50,000,000,000 Shares by the creation of an additional 48,000,000,000 new Shares.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition, the Placing and the proposed increase in authorised share capital of the Company; (ii) financial information of the Group and the Target Group; (iii) pro forma financial information of the Enlarged Group; (iv) the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders on the Acquisition and the transactions contemplated thereunder; (v) the letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders setting out its opinion on the Acquisition and the transactions contemplated thereunder; (vi) the technical report on the TNE Mine prepared in accordance with the requirements under Chapter 18 of the Listing Rules; (vii) the valuation report on the value of TNE; (viii) the valuation report on the property interests of the Enlarged Group; and (ix) the notice of the EGM at which resolutions will be proposed for the approval of the Acquisition Agreement and the transactions contemplated thereunder, the Placing and the proposed increase in the authorised share capital of the Company.

THE ACQUISITION AGREEMENT

Date: 5 December 2009

Parties:

Purchaser: Brave Lion Investments Limited, a company incorporated in BVI with limited liability and an indirect wholly-owned subsidiary of the Company.

Vendors: (i) Sino Access Holdings Ltd., an investment holding company incorporated in BVI with limited liability holding 15% of the issued share capital of the Target Company, which is indirect wholly and beneficially owned by Mr. Wong; and

(ii) Best State Holdings Limited, an investment holding company incorporated in BVI with limited liability holding 85% of the issued share capital of the Target Company, which is beneficially owned as to 40% by Mr. Wong and the remaining 60% by the Six Individuals.

As at the date of the Acquisition Agreement, Mr. Wong was interested in 1,400,000 Shares (representing approximately 0.17% of the total issued share capital of the Company as at the date of the Acquisition Agreement). The Vendors were introduced to the Company by a person who is a common friend of an executive Director and Mr. Wong.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, save as disclosed above, the Vendors and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons. Save for the entering into of the Memorandum of Understanding, the Group has not engaged in any previous transactions which were related to the Acquisition or with either of the Vendors in the last 12 months which would otherwise require aggregation under Rule 14.22 of the Listing Rules.

Assets to be acquired

The Sale Shares, being the entire issued share capital of the Target Company.

The Consideration

The Consideration for the Acquisition of HK$1,937.5 million shall be satisfied by the Purchaser in the following manner:

(a) as to HK$200 million shall be payable by the Purchaser to Sino Access (or its nominee) in cash upon Completion;

(b) as to HK$350 million by way of procuring the Company to issue the Promissory Note to Sino Access (or its nominee) upon Completion;

(c) as to HK$433.4 million by way of procuring the Company to allot and issue 1,970 million Consideration Shares at an issue price of HK$0.22 per Consideration Share to Best State (or its nominee) upon Completion; and

(d) as to HK$954.1 million by way of procuring the Company to issue the Convertible Note to Best State (or its nominee) upon Completion.

The Consideration was determined after arm's length negotiations between the Company and the Vendors by reference to a preliminary estimated valuation of US$255 million (equivalent to approximately HK$1,976 million) on the value of TNE or the value of the Major Licenses, which was prepared by BMI Appraisals Limited in November 2009 adopting a market approach, subject to the Company obtaining an independent valuation conducted by an independent valuer appraising the value of TNE or the value of the Major Licenses to be not less than US$250 million (equivalent to approximately HK$1,937.5 million). For this purpose, the Company has appointed BMI Appraisals Limited to conduct the Valuation Report. Pursuant to the terms of the Acquisition Agreement, completion will not take place if the value of TNE or the value of the Major Licences as shown on the Valuation Report is less than US$250 million (equivalent to approximately HK$1,937.5 million). BMI Appraisals Limited has appraised the value of TNE as of 31 March 2010 to be US$320 million (equivalent to approximately HK$2,480 million). Based on this valuation, the Consideration represents a discount of approximately 21.9% to the fair value of TNE as at 31 March 2010. The full text of the Valuation Report in respect of the value of TNE is set out in Appendix V to this circular. It has further been agreed by the Company and the Vendors that a substantial portion of the Consideration (representing approximately 89.7% of the Consideration) will be satisfied by the allotment and issue of the Consideration Shares, the Convertible Note and the Promissory Note which does not require immediate cash outlays of the Company.

As stated above, the Consideration was determined by the Company and the Vendors after arms' length negotiation. As regards to the split of the Consideration (including the form of payment and respective amount of the Consideration involved) between Sino Access and Best State, the Company has not taken part in the negotiation and as advised by the Vendors, such a split of Consideration as stated in the Acquisition Agreement was agreed upon between Mr. Wong and the Six Individuals, who are the ultimate beneficial owners of Sino Access and Best State respectively which the Company considered an acceptable arrangement.

Based on the aforesaid and taking into account the factors as set out under the paragraph headed "Reason for the Acquisition" below, the Directors are of the opinion that the Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Consideration Shares

The 1,970 million Consideration Shares to be allotted and issued by the Company at the Issue Price upon Completion represents (i) approximately 238.4% of the issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 70.4% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming none of the Options have been exercised); (iii) approximately 29.0% of the issued share capital of the Company as enlarged by the allotment and issue of the 1,970 million Consideration Shares and the 4,000 million Placing Shares (assuming none of the Options have been exercised); and (iv) approximately 9.3% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, Placing Shares and the Conversion Shares (assuming the Convertible Note and Compensation Note are converted in full, and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Options).

The Consideration Shares will be allotted and issued under a specific mandate proposed to be obtained at the EGM. The Consideration Shares shall rank equally among themselves and pari passu in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares.

Convertible Note

The Convertible Note in principal amount of HK$954.1 million will be issued by the Company to satisfy part of the Consideration. The principal terms of the Convertible Note to be issued by the Company are as follows:

Issuer:	the Company
Principal amount:	HK$954.1 million
Maturity date:	the Business Day falling on the fifth anniversary of the date of issue of the Convertible Note the Company shall have the right to extend the maturity date in respect of the amount of the outstanding Convertible Note not having been converted on the first maturity date for another five years, i.e. to the Business Day falling on the tenth anniversary of the date of issue of the Convertible Note
Interest:	non-interest bearing
Conversion Shares:	up to 4,336,818,182 Conversion Shares (subject to adjustment)
Transferability:	the Convertible Note will be freely transferable provided that where the Convertible Note is intended to be transferred to a connected person of the Company (other than the associates of the relevant bondholder) such transfer shall comply with the requirements under the Listing Rules and/or requirements imposed by the Stock Exchange (if any)
Conversion period:	the period commencing from the date of issue of the Convertible Note up to the maturity date
Initial Conversion Price:	the Convertible Note shall be converted at the initial conversion price of HK$0.22 per Conversion Share (subject to adjustment). The conversion price is subject to adjustments upon the occurrence of, among others, subdivision or consolidation or reclassification of Shares, capital distribution, capitalization issues, rights issues and grant of options and warrants on and subject to the terms of the Convertible Note

Conversion:	a holder of Convertible Note shall have the right at any time and from time to time during the period commencing from the date of issue of the Convertible Note up to the maturity date to convert the whole or part of the principal amount of the Convertible Note in amounts of not less than HK$1,000,000 of the principal amount outstanding under the Convertible Note into Conversion Shares on each conversion, save that if at any time, the outstanding principal amount of the Convertible Note is less than HK$1,000,000 the whole (but not part only) of the outstanding principal amount of the Convertible Note may be converted; provided that no Convertible Note may be converted, to the extent that following such exercise (a) the minimum 25% public float requirement of the Company as required under the Listing Rules cannot be satisfied; or (b) a holder of the Convertible Note and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 30% or more of the entire issued Shares (or in such percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer)
Redemption:	non-redeemable prior to the maturity date
Listing:	no application will be made for the listing of the Convertible Note on the Stock Exchange or any other stock exchange

The 4,336,818,182 Conversion Shares to be allotted and issued upon full conversion of the Convertible Note represents (i) approximately 524.7% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 39.0% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, the Placing Shares (assumed to be 4,000,000,000 Shares) and the Conversion Shares upon conversion of the Convertible Note (assuming the Convertible Note are converted in full and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Options and converted upon conversion of the Compensation Note).

The Conversion Shares will be issued under a specific mandate proposed to be obtained at the EGM. The Conversion Shares shall rank equally among themselves and pari passu in all respects with the Shares in issue on the date of allotment and issue of such Conversion Shares.

Issue Price and Initial Conversion Price

Each of the Issue Price of HK$0.22 for each Consideration Share and the Initial Conversion Price for the Convertible Note was determined after arm's length negotiations between the Purchaser and the Vendors, which represents:

(a) a discount of approximately 65.63% to the closing price of the Shares of HK$0.64 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) a discount of approximately 69.86% to the closing price of the Shares of HK$0.73 per Share as quoted on the Stock Exchange on the Last Trading Day;

(c) a discount of approximately 69.44% to the average of the closing prices of the Shares of approximately HK$0.72 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including Last Trading Day;

(d) a discount of approximately 47.62% to the average of the closing prices of the Shares of approximately HK$0.42 per Share as quoted on the Stock Exchange for the 60 consecutive trading days up to and including the Last Trading Day;

(e) a discount of approximately 26.2% to the average of the closing prices of the Shares of approximately HK$0.298 per Share as quoted on the Stock Exchange for the twelve-month period from 5 December 2008 to the Last Trading Day; and

(f) a discount of approximately 54.17% to the audited net assets attributable to equity holders of the Company as at 31 March 2009 of approximately HK$0.48 per Share.

The Consideration, including the Issue Price and the Initial Conversion Price, was determined after arm's length negotiations between the Vendors and the Company and taking into account the factors considered as set out under the paragraph headed "The Consideration" under the section headed "The Acquisition Agreement" in this circular. Moreover, although the Issue Price and the Initial Conversion Price represent a discount of approximately 69.86% to the closing price of the Shares as quoted on the Stock Exchange on the Last Trading Day, it is noted that the Share price has recently surged from HK$0.34 per Share ((the "Pre-MOU Reference Price"), being the closing price as at 12 November 2009, the date immediately preceding the announcement in relation to the Memorandum of Understanding (the "Pre-MOU Day")) to HK$0.73 per share (being the closing price on the Last Trading Day), which represents an increase of approximately 114.71%. Taking the Pre-MOU Reference Price to compare, in order to eliminate the effects of any short term fluctuations in share prices on the trading pattern of the Shares on the Stock Exchange, the Issue Price and the Initial Conversion Price represent an approximately 35.29% discount to the Pre-MOU Reference Price and approximately 18.52% discount to the average of the closing prices of approximately HK$0.27 per Share for the last one year up to and including the Pre-MOU Day. Moreover, during the course of negotiation on the terms of the Acquisition Agreement, both the Board and the Vendors considered that taking a longer trading period to compare would give a more meaningful reference to the Issue Price and the Initial Conversion Price. Accordingly, the Board had also made reference to the historical Share price performance for the past twelve months prior to the signing of the Acquisition Agreement and not just considered the market price of the Shares immediately preceding the date of the Acquisition Agreement. The Board noted that the price of the Shares had been trading within the range of HK$0.126 to HK$0.81 over the past twelve months up to and including the Last Trading Day and the Issue Price and the Initial Conversion Price lie within this range. The Issue Price and the Initial Conversion Price represent an approximately 26.2% discount to the average of the closing prices of the Shares of approximately HK$0.298 per Share as quoted on the Stock Exchange for the twelve-month period from 5 December 2008 to the Last Trading Day.

Apart from the aforesaid, in considering the fairness and reasonableness of the Issue Price and the Initial Conversion Price, the Board has identified 22 companies listed on the Stock Exchange (the "Comparables") which has conducted very substantial acquisition transactions that involved the issue of new securities during the three-month period prior to the signing of the Acquisition Agreement. It is noted that the issue price of the new securities of the Comparables was rather diversified (ranging from a premium of approximately 135.29% to a discount of 72.97% to the closing price of their respective shares on the last trading day immediately before the announcement of the respective transactions) and the new securities for 13 out of 22 companies among the Comparables were issued at a discount to their respective closing prices. In addition, the Convertible Note is unsecured, non-interest bearing, redeemable at its outstanding principal amount at maturity and the Company has the right to extend the first five-year maturity date for another five years. In determining the Initial Conversion Price, the Directors have also taken into consideration such features of the Convertible Note which have allowed the Company not to incur any finance costs and provide flexibility to the Company on the repayment schedule of the Convertible Note upon its maturity without any additional funding costs. Based on the aforesaid and taking into account the substantial number of shares to be issued under the Acquisition, the Directors consider that the Consideration, including the Issue Price and the Initial Conversion Price, is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

Application for listing

An application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares to be allotted and issued pursuant to the Acquisition Agreement and the Conversion Shares to be issued upon the exercise of the conversion rights attached to the Convertible Note.

Promissory Note

The principal terms of the Promissory Note which will be issued at Completion are as follows:

Principal amount:	HK$350,000,000
Maturity date:	the date falling on the second anniversary of the issue date of the Promissory Note
Interest rate:	Non-interest bearing
Security:	Unsecured

Conditions precedent

Completion shall be conditional upon the satisfaction or (as the case may be) waiver or variation of the following conditions:

(a) the Purchaser having confirmed in writing that it is satisfied at its sole discretion with, the Purchaser's due diligence review of the legal, financial, taxation, corporate, trading and business affairs of each companies of the Target Group, and other subject matters incidental thereto, provided that any information and documents relevant to such review is made available promptly upon request by the Purchaser or its professional advisers;

(b) all consents which are required for the entering into or the implementation or Completion of the Acquisition Agreement by the Vendors, the Purchaser and the Target Group or for the performance of their respective obligations thereunder having been obtained, including, without limitation, the consents (if appropriate or required) of the Stock Exchange and the SFC and all filings with any relevant governmental or regulatory authorities and other relevant third parties in Hong Kong, or elsewhere which are required or appropriate for the entering into and the implementation of the Acquisition Agreement having been made;

(c) the approval of Shareholders (or Independent Shareholders, if required under the Listing Rules) and all necessary resolutions having been obtained at a duly convened Shareholders' meeting of the Company approving the Acquisition Agreement and the transactions contemplated thereunder, including but not limited to the purchase of the Sale Shares, the issue of the Consideration Shares, the Promissory Note, the Convertible Note, the Compensation Note and such Shares of the Company fall to be issued and allotted under the Convertible Note and the Compensation Note;

(d) the approval of Shareholders at a duly convened Shareholders' meeting of the Company approving an increase in authorised share capital of the Company in order to cater for its issue of the Consideration Shares and the Conversion Shares;

(e) approval for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares having been granted by the Stock Exchange and not having been revoked;

(f) the Purchaser and/or the Company having successfully raised from the equity market no less than HK$400,000,000 but not more than HK$480,000,000 by way of placement of new Shares in the share capital of the Company in cash to finance the cash portion of the Consideration;

(g) all the Purchaser's warranties being true and correct in all material respects as at the Completion Date by reference to the facts and circumstances subsisting at that date and the Purchaser having complied with its obligations under the Purchaser's warranties in all material respects;

(h) the Company having issued the circular to the Shareholders in respect of the transactions contemplated under the Acquisition Agreement in accordance with the requirements under the Listing Rules;

(i) the Stock Exchange not having indicated that it will treat (i) the transactions contemplated under the Acquisition Agreement as a "reverse takeover" under Rule 14.06(6) of the Listing Rules and/or (ii) the Target Company as a new listing applicant under Rule 14.54 of the Listing Rules;

(j) the Shares of the Company remaining listed and traded on the Stock Exchange at all times from the date hereof to the Completion Date, save for any temporary suspension not exceeding 15 (fifteen) consecutive trading days, or such longer period as the Vendors may accept in writing, and no indication being received by the Company on or before Completion from the Stock Exchange to the effect that the listing of the Shares of the Company on the Stock Exchange will or may be withdrawn or objected to as a result of Completion or in connection with the terms of the Acquisition Agreement or any documents contemplated thereunder;

(k) the Vendors having confirmed in writing that they are satisfied at their sole discretion with, the Vendors' due diligence review of the legal, financial, taxation, corporate, trading and business affairs of the Company and its subsidiaries, and other subject matters incidental thereto, provided that any information and documents relevant to such review is made available promptly upon request by the Vendors or their professional advisers;

(l) the Purchaser having received an opinion issued by a Mongolian lawyer approved by the Purchaser in respect of each members of the Target Group which is incorporated in Mongolia and the Licences governed by the Laws of Mongolia in form and substance satisfactory to the Purchaser, confirming that, including but not limited to, the due incorporation of each member of the Target Group which is incorporated in Mongolia, the business scope of each member of the Target Group which is incorporated in Mongolia, compliance with all applicable laws and regulations by each member of the Target Group which is incorporated in Mongolia, legality of the Licences and there is no legal impediment for the changes in the ultimate ownership of the Licences and the conversion of all the Licences which are exploration licences into mining licences;

(m) the Purchaser having received a valuation report in form and substance satisfactory to the Purchaser issued by an independent professional valuer acceptable to the Purchaser stating that the value of TNE or the value of the Major Licences being not less than US$250,000,000;

(n) the Purchaser having received a technical report (to be conducted in compliance with the requirements under Chapter 18 of the Listing Rules) in respect of the TNE Mine in form and substance satisfactory to the Purchaser and issued by an independent technical adviser acceptable to the Purchaser;

(o) if required, all requisite approvals from governmental and other authorities in all applicable jurisdictions in connection with the changes in the ultimate ownership of the Licences having been obtained;

(p) the Vendors having delivered (i) the certificate of incumbency and certificate of good standing, in respect of the Target Company and its subsidiaries which are incorporated in the BVI and (ii) a legal opinion issued by a lawyer qualified in Singapore confirming due incorporation and compliance with all applicable laws and regulations by the subsidiary of the Target Company which is incorporated in Singapore, all in form and substance satisfactory to the Purchaser; and

(q) all the Vendors' warranties being true and correct in all material respects at the Completion Date by reference to the facts and circumstances subsisting at that date and the Vendors having complied with their obligations under the Vendors' warranties in all material respects.

Each of the Vendors and the Purchaser shall use their respective best endeavours to procure the fulfilment of all the conditions set out above. The Purchaser shall take the lead on procuring fulfilment of the conditions set out in (a) to (j), (l), (m) and (n) and the Vendors shall take the lead on procuring fulfilment of the conditions set out in (k), (o) to (q) as soon as reasonably practicable. The Purchaser may waive in writing the condition(s) set out in (a) and/or (l) to (q) at its own discretion but not any other conditions set out above. The Vendors may waive in writing the condition(s) set out in (g), (j) and/or (k) at their own discretion but not any other conditions set out above. In connection with condition (j) as set out above, on 24 December 2009, the Vendors have provided a written consent to the Purchaser on the temporary suspension in the trading of the Shares for a further 15 (fifteen) consecutive trading days.

Save for the aforesaid, as at the Latest Practicable Date, conditions (m) and (n) have been fulfilled. If any of the conditions set out above are not fulfilled (or waived by the Purchaser or the Vendors, as the case may be) on or prior to 30 June 2010 (or such later date as may be agreed between the Vendors and the Purchaser), the Acquisition Agreement shall terminate and none of the parties shall have any claim against the others for costs, damages, compensation or otherwise and save in respect of claims arising out of any antecedent breach of the Acquisition Agreement.

Completion

Completion shall take place on the date falling on the third Business Day after all the conditions under the Acquisition Agreement having been fulfilled or waived by the relevant parties.

Compensation

Pursuant to the Acquisition Agreement, as soon as reasonably practicable and in any event not later than eight months after the Completion Date, the Vendors and the Purchaser shall use their respective best endeavours to obtain, or procure the obtaining of:

(a) the Second Valuation Report in form and substance satisfactory to the Purchaser stating that the value of Camex LLC and its subsidiaries (excluding TNE) or the value of the Other Licences (the "Fair Value") being not less than HK$1,550 million; and

(b) the Second Technical Report in form and substance satisfactory to the Purchaser.

Subject to fulfilment of the above conditions, the Compensation at a maximum amount of HK$3,100 million shall be payable by the Purchaser by way of procuring the Company to issue the Compensation Note to Best State (or its nominee) within ten Business Days from the date of the Second Technical Report or the Second Valuation Report, whichever shall be the later. The principal amount of the Compensation Note shall be:

(a) the Fair Value, if such Fair Value as shown in the Second Valuation Report is equal to or more than HK$1,550 million but less than HK$3,100 million; or

(b) HK$3,100 million, if the Fair Value as shown in the Second Valuation Report is equal to or more than HK$3,100 million; and

No payment shall be made if the Fair Value as shown in the Second Valuation Report is less than HK$1,550 million.

Compensation Note

The Compensation Note with a maximum principal amount of HK$3,100 million (subject to adjustment) may be issued by the Company to Best State (or its nominee) subject to the conditions as stated in the paragraph headed "Compensation" above. The principal terms of the Compensation Note to be issued by the Company are as follows:

Issuer:	the Company
Maximum principal amount:	up to a maximum of HK$3,100 million (subject to adjustment)
Maturity date:	the Business Day falling on the fifth anniversary of the date of issue of the Compensation Note the Company shall have the right to extend the maturity date in respect of the amount of the outstanding Compensation Note not having been converted on the first maturity date for another five years, i.e. to the Business Day falling on the tenth anniversary of the date of issue of the Compensation Note
Interest:	non-interest bearing
Conversion Shares:	up to 10,000,000,000 Conversion Shares (subject to adjustment)
Transferability:	the Compensation Note will be freely transferable provided that where the Compensation Note is intended to be transferred to a connected person of the Company (other than the associates of the relevant bondholder) such transfer shall comply with the requirements under the Listing Rules and/or requirements imposed by the Stock Exchange (if any)
Conversion period:	the period commencing from the date of issue of the Compensation Note up to the maturity date
Initial conversion price:	the Compensation Note shall be converted at the initial conversion price of HK$0.31 per Conversion Share (subject to adjustment). The conversion price is subject to adjustments upon the occurrence of, among others, subdivision or consolidation or reclassification of Shares, capitalization issues, capital distribution, rights issues and grant of options and warrants on and subject to the terms of the Compensation Note

Conversion:	a holder of the Compensation Note shall have the right at any time and from time to time during the period commencing from the date of issue of the Compensation Note up to the maturity date to convert the whole or part of the principal amount of the Compensation Note in amounts of not less than HK$1,000,000 of the principal amount outstanding under the Compensation Note into Conversion Shares on each conversion, save that if at any time, the outstanding principal amount of the Compensation Note is less than HK$1,000,000 the whole (but not part only) of the outstanding principal amount of the Compensation Note may be converted; provided that no Compensation Note may be converted, to the extent that following such exercise (a) the minimum 25% public float requirement of the Company as required under the Listing Rules cannot be satisfied; or (b) a holder of the Compensation Note and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 30% or more of the entire issued Shares (or in such percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer)
Redemption:	non-redeemable prior to the maturity date
Application for listing:	An application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares to be issued upon the exercise of the conversion rights attached to the Compensation Note. No application will be made for the listing of the Compensation Note on the Stock Exchange or any other stock exchange.

The maximum of 10,000,000,000 Conversion Shares to be allotted and issued upon full conversion of the Compensation Note represents (i) approximately 1,210.0% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 47.3% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, the Placing Shares (assumed to be 4,000,000,000 Shares) and the Conversion Shares (assuming the Convertible Note and Compensation Note are converted in full and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Options).

The total number of the Consideration Shares (being 1,970,000,000 Shares), the Placing Shares (assumed to be 4,000,000,000 Shares) and the Conversion Shares (up to 14,336,818,182 Shares upon full conversion of the Convertible Note and Compensation Note based on the initial conversion price of HK$0.22 and HK$0.31 per Share respectively) is 20,306,818,182 Shares, which represents approximately 2,457% of the existing issued share capital of the Company and approximately 96.1% of the issued share capital of the Company as enlarged by the issue of such Consideration Shares, the Placing Shares and the Conversion Shares.

The initial conversion price of the Compensation Note of HK$0.31 represents:

(i) a discount of approximately 51.56% to the closing price of HK$0.64 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 57.53% to the closing price of HK$0.73 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 36.73% to the average of the closing prices of approximately HK$0.49 per Share as quoted on the Stock Exchange for the last thirty trading days immediately prior to and including the Last Trading Day;

(iv) a discount of approximately 26.19% to the average of the closing prices of approximately HK$0.42 per Share as quoted on the Stock Exchange for the last sixty trading days immediately prior to and including the Last Trading Day;

(v) a premium of approximately 4.03% to the average of the closing prices of the Shares of approximately HK$0.298 per Share as quoted on the Stock Exchange for the twelve-month period from 5 December 2008 to the Last Trading Day; and

(vi) a discount of approximately 35.42% to the audited net assets attributable to equity holders of the Company as at 31 March 2009 of approximately HK$0.48 per Share.

Based on the aforesaid, the Directors consider that the initial conversion price of the Compensation Note is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

There will not be a change in control of the Company as a result of the Acquisition. The following charts set out the possible effects of the Acquisition and the Placing on the shareholding structure of the Company:

(i) Assuming 3,800,000,000 Placing Shares are issued

	As at the Latest Practicable Date *number of Shares*	*Approximate %*	Upon Completion and issue of the Consideration Shares and Placing Shares *number of Shares*	*Approximate %*	Upon Completion and issue of the Consideration Shares, Placing Shares and assuming full conversion of the Convertible Note *number of Shares (Notes 5 & 8)*	*Approximate %*	Upon Completion and issue of the Consideration Shares, Placing Shares and assuming full conversion of the Convertible Note and HK$1,550 million Compensation Note *number of Shares (Notes 6 & 8)*	*Approximate %*	Upon Completion and issue of the Consideration Shares, Placing Shares and assuming full conversion of the Convertible Note and HK$3,100 million Compensation Note *number of Shares (Notes 7 & 8)*	*Approximate %*
Robinhoods *(Note 1)*	453,888,000	54.92%	453,888,000	6.88%	453,888,000	4.15%	453,888,000	2.85%	453,888,000	2.17%
Mr. Yuen Wai Keung	5,704,000	0.69%	5,704,000	0.09%	5,704,000	0.05%	5,704,000	0.04%	5,704,000	0.03%
Mr. So Yiu Cheung *(Note 2)*	4,000,000	0.48%	4,000,000	0.06%	4,000,000	0.04%	4,000,000	0.02%	4,000,000	0.02%
Robinhoods Concert Group	463,592,000	56.09%	463,592,000	7.03%	463,592,000	4.24%	463,592,000	2.91%	463,592,000	2.21%
Sino Access *(Note 3)*	1,400,000	0.17%	1,400,000	0.02%	1,400,000	0.01%	1,400,000	0.01%	1,400,000	0.01%
Best State	–	–	1,970,000,000	29.86%	6,306,818,182	57.68%	11,306,818,182	70.96%	16,306,818,182	77.90%
Vendors total *(Note 4)*	1,400,000	0.17%	1,971,400,000	29.88%	6,308,218,182	57.69%	11,308,218,182	70.97%	16,308,218,182	77.91%
Independent placees	–	–	3,800,000,000	57.61%	3,800,000,000	34.76%	3,800,000,000	23.85%	3,800,000,000	18.15%
Existing public Shareholders	361,488,000	43.74%	361,488,000	5.48%	361,488,000	3.31%	361,488,000	2.27%	361,488,000	1.73%
Total	826,480,000	100.00%	6,596,480,000	100.00%	10,933,298,182	100.00%	15,933,298,182	100.00%	20,933,298,182	100.00%

(ii) Assuming 4,000,000,000 Placing Shares are issued

	As at the Latest Practicable Date *number of Shares*	*Approximate %*	Upon Completion and issue of the Consideration Shares and Placing Shares *number of Shares*	*Approximate %*	Upon Completion and issue of the Consideration Shares, Placing Shares and assuming full conversion of the Convertible Note *number of Shares (Notes 5 & 8)*	*Approximate %*	Upon Completion and issue of the Consideration Shares, Placing Shares and assuming full conversion of the Convertible Note and HK$1,550 million Compensation Note *number of Shares (Notes 6 & 8)*	*Approximate %*	Upon Completion and issue of the Consideration Shares, Placing Shares and assuming full conversion of the Convertible Note and HK$3,100 million Compensation Note *number of Shares (Notes 7 & 8)*	*Approximate %*
Robinhoods *(Note 1)*	453,888,000	54.92%	453,888,000	6.68%	453,888,000	4.08%	453,888,000	2.81%	453,888,000	2.15%
Mr. Yuen Wai Keung	5,704,000	0.69%	5,704,000	0.08%	5,704,000	0.05%	5,704,000	0.04%	5,704,000	0.03%
Mr. So Yiu Cheung *(Note 2)*	4,000,000	0.48%	4,000,000	0.06%	4,000,000	0.03%	4,000,000	0.02%	4,000,000	0.02%
Robinhoods Concert Group	463,592,000	56.09%	463,592,000	6.82%	463,592,000	4.16%	463,592,000	2.87%	463,592,000	2.19%
Sino Access *(Note 3)*	1,400,000	0.17%	1,400,000	0.02%	1,400,000	0.01%	1,400,000	0.01%	1,400,000	0.01%
Best State	–	–	1,970,000,000	28.99%	6,306,818,182	56.65%	11,306,818,182	70.08%	16,306,818,182	77.16%
Vendors total *(Note 4)*	1,400,000	0.17%	1,971,400,000	29.01%	6,308,218,182	56.66%	11,308,218,182	70.09%	16,308,218,182	77.17%
Independent placees	–	–	4,000,000,000	58.85%	4,000,000,000	35.93%	4,000,000,000	24.79%	4,000,000,000	18.93%
Existing public Shareholders	361,488,000	43.74%	361,488,000	5.32%	361,488,000	3.25%	361,488,000	2.24%	361,488,000	1.71%
Total	826,480,000	100.00%	6,796,480,000	100.00%	11,133,298,182	100.00%	16,133,298,182	100.00%	21,133,298,182	100.00%

Notes:

1 *Robinhoods is owned as to one third by Able Promise Holdings Limited (a company wholly-owned by Mr. Yuen Chow Ming, an executive Director), as to one third by Group Honour Assets Limited (a company wholly-owned by Mr. So Yiu Cheung, an executive Director) and as to the remaining by Foremost Time Holdings Limited (a company wholly-owned by Mr. Yuen Wai Keung, an executive Director).*

2 *Among the 4,000,000 Shares, 3,000,000 Shares are owned by Mr. So Yiu Cheung and 1,000,000 Shares are owned by the son of Mr. So Yiu Cheung.*

3 *1,400,000 Shares are held by Mr. Wong, the sole beneficial owner of Sino Access.*

4 *As advised by the Vendors, they are not parties acting in concert with Robinhoods Concert Group.*

5 *Based on the initial conversion price of the Convertible Note of HK$0.22 per Share, a total of 4,336,818,182 Shares will be issued.*

6 *Assuming the Fair Value as shown in the Second Valuation Report is HK$1,550 million, a total of 5,000,000,000 additional Shares will be issued (based on the initial conversion price of HK$0.31 per Share).*

7 *Assuming the Fair Value as shown in the Second Valuation Report is not less than HK$3,100 million, a total of 10,000,000,000 additional Shares will be issued (based on the initial conversion price of HK$0.31 per Share).*

8 *The figures are provided for illustrative purposes only. The terms of the Convertible Note and Compensation Note do not permit conversion if, immediately after such conversion, the holder of the Convertible Note and Compensation Note and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 30% or more of the issued share capital of the Company (or in such percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer) or there will not be sufficient public float of the Shares as required under of the Listing Rules.*

INFORMATION ON THE TARGET GROUP

Set out below is the background information of the Target Group, the Mines, the shareholding structure and financial information of the Target Group based on the information provided by the Vendors:

1. Background information

Camex LLC was incorporated in Mongolia with limited liability in August 2006. The registered capital of Camex LLC is MNT12 million (equivalent to approximately HK$64,800) and Camex LLC is principally engaged in the business of mineral resources exploration. Camex LLC was founded by two Mongolians in August 2006, one of them is Mr. Batsukh Yadamsuren (being one of the Six Individuals) and the other is an Independent Third Party, with an initial equity interest of 10% and 90% respectively. The 90% equity interest in Camex LLC held by such Independent Third Party was ultimately transferred to another Independent Third Party (the "LLC Ex-shareholder A") in April 2007. In June 2007, three of the Six Individuals (being Mr. Lim Siong Dennis, Mr. Tan Kah Hock and Mr. Yeo Cheow Tong) became shareholders of Camex LLC through the acquisition of an aggregate of 54.5% equity interest in Camex LLC from the LLC Ex-shareholder A, holding the shares of Camex LLC on behalf of Camex Pte, at a total consideration of approximately US$1.755 million (equivalent to approximately HK$13.6 million). Apart from holding the equity interests in TNE, Camex GT and Kores, Camex LLC currently holds five of the Other Licences, including three coal exploration licences and two gold and copper exploration licences (licence nos. 13189X, 13661X, 13662X, 7173X and 7176X). Camex LLC initially acquired 80% equity interest in TNE (60% in February 2007 and 20% in June 2007 respectively) from two Independent Third Parties and subsequently acquired the remaining 20% equity interest in TNE in December 2009 at a total consideration of approximately US$1.3 million (equivalent to approximately HK$10.1 million). Camex LLC set up Camex GT and the joint venture, Kores, with an Independent Third Party in January 2007 and November 2006 respectively.

TNE, incorporated in Mongolia with limited liability in February 2005 with registered capital of MNT10 million (equivalent to approximately HK$54,000), is wholly-owned by Camex LLC. TNE is principally engaged in mining business. TNE currently holds the Major Licences, being the four mining licences (licence nos. 228A, 13533A, 13553A and 15429A (which was converted from the exploration licence numbered 9488X)) in the TNE Mine, and it also owns the Processing Plant which was built with the subsidies from the Mongolian government. The basic structure of the Processing Plant was completed in 2008 and trial production of which was launched in the same year. Since October 2009 and as at the Latest Practicable Date, the Processing Plant has not carried out any commercial operation.

Camex GT, incorporated in Mongolia with limited liability in January 2007 with registered capital of MNT1,000,000 (equivalent to approximately HK$5,400), is wholly-owned by Camex LLC. As at the Latest Practicable Date, Camex GT is dormant and has not carried out any operation since its establishment.

Kores, incorporated in Mongolia with limited liability in November 2006 with registered capital of MNT11.64 million (equivalent to approximately HK$62,856), is owned as to 70% by Camex LLC and 30% by an Independent Third Party. Kores is principally engaged in mineral resources exploration. Kores currently holds two of the Other Licences, namely two gold and copper exploration licences (licence nos. 7367X and 7368X).

Camex Pte, incorporated in Singapore with limited liability on 23 February 2007, is an investment holding company established for the purpose of holding interest in Camex LLC and is wholly owned by the Target Company. The registered capital of Camex Pte is US$10 million (equivalent to approximately HK$77.5 million) which was paid up by three of the Six Individuals (being Mr. Lim Siong Dennis, Mr. Tan Kah Hock and Mr. Yeo Cheow Tong) in July 2007. In return for such capital injection, new shares of Camex Pte were issued and Mr. Lim Siong Dennis, Mr. Tan Kah Hock and Mr. Yeo Cheow Tong became shareholders of Camex Pte. Camex Pte became the holding company of Camex LLC in July 2007 as a result of the transfer of the 54.5% equity interest in Camex LLC by Mr. Lim Siong Dennis, Mr. Tah Kah Hock and Mr. Yeo Cheow Tong (who were holding the shares in Camex LLC on behalf of Camex Pte) and the acquisition of 45.5% equity interest in Camex LLC by the then remaining two shareholders in Camex LLC (namely, Mr. Batsukh Yadamsuren and the LLC Ex-shareholder A) to Camex Pte by way of the issue of shares in Camex Pte. Subsequently in November 2009, Mr. Mashbat Bukhbat (being one of the Six Individuals) acquired the equity interest held by the LLC Ex-shareholder A in Camex Pte at a consideration of SG$300,000 (equivalent to approximately HK$1,658,700). Accordingly, five of the Six Individuals became the beneficial owners of Camex Pte.

The Target Company, incorporated in BVI with limited liability in November 2009, is an investment holding company with authorised share capital of 50,000 shares at a par value of US$1.00 each, and issued share capital of US$1,000 (equivalent to approximately HK$7,750) and owned as to 15% by Sino Access and 85% by Best State. The Target Company was incorporated for the purpose of the holding of investment in Camex Pte through the following restructuring (the "Restructuring"):

(a) Camex Pte acquired the entire issued share capital of Grand Title from Diamond Wealth Holdings Ltd., which is wholly-owned by Mr. Wong. In return, Diamond Wealth Holdings Ltd. acquired certain shares in Best State and Sino Access;

(b) the Target Company acquired the entire issued share capital of Camex Pte from five of the Six Individuals. In return, those five individuals acquired certain shares in Best State; and

(c) Ms. Lim Shi Hui, Celestina, one of the Six Individuals, was introduced as a shareholder to and allotted shares in Best State.

As a result of the Restructuring, (i) Best State was owned as to 40% equity interest by Diamond Wealth Holdings Ltd., which is wholly-owned by Mr. Wong, and as to 60% by the Six Individuals, which in turn owned 85% equity interest of the Target Company; and (ii) Sino Access, indirectly wholly-owned by Mr. Wong, owned 15% of the equity interest of the Target Company. Other than its investment holding in Camex Pte as its wholly-owned subsidiary, the Target Company has no other major assets or investments as at the Latest Practicable Date.

Grand Title, incorporated in BVI with limited liability on 10 November 2008, is an investment holding company with authorised share capital of 50,000 shares at a par value of US$1.00 each and issued share capital of US$1.00 (equivalent to approximately HK$7.75) and wholly owned by Camex Pte. Apart from the Grand Title MOU, Grand Title has no major assets or investment as at the Latest Practicable Date. The Grand Title MOU is a memorandum signed between the Ministry of Road, Transportation, Construction and Urban Development of Mongolia and Grand Title on 15 April 2009 in respect of the implementation in Mongolia of construction, housing, and infrastructure development projects with the provision of mining concessions. Other than the signing of the Grand Title MOU, Grand Title has not been involved in any significant business transactions since its establishment.

According to the legal opinion prepared by the Mongolian legal adviser, each member of the Target Group which holds the Licences is duly incorporated and validly existing under the laws of its jurisdiction of incorporation. So far as the Directors are aware, there has not been any material compliance incident affecting the legal existence of any member of the Target Group. Furthermore, as advised by the Mongolian legal adviser to the Company, each member of the Target Group which holds the Licences has obtained all necessary licences and approvals for its exploration and mining operations and there has not been any material compliance incident affecting its exploration and mining operations.

2. The Mines

TNE Mine

As stated in the Technical Report, the TNE Mine is located in the Tugrug Valley which is approximately 170 km southeast of Mongolia's capital city, Ulaanbaatar. The coal deposit is in the Tugrug Valley and is within the administrative unit of Bayan Soum of Tuv (Central) Aimag (province). The UB-Beijing railroad is located approximately 20 km from the coal deposit on the eastern side of the TNE Mine. Power lines run parallel to the railroad and extend through Mongolia from Russia to China. The coal resource is contained within an area of approximately 1,114 hectares covered by the Major Licences held by TNE.

Details of the Major Licences are summarized as follows:

Licence No.		Description	First date of grant	Valid until
1.	228A	Mining	27 June 1995	26 June 2025
2.	13553A	Mining	15 April 2008	15 April 2038
3.	13533A	Mining	11 April 2008	11 April 2038
4.	15429A *(Note)*	Mining	22 January 2010	22 January 2040

Note: The mining licence numbered 15429A was converted from the exploration licence numbered 9488X on 22 January 2010.

According to the Technical Report, the TNE Mine has 64.0 million tonnes of brown coal (measured and indicated) in situ resources and an additional 27.9 million tonnes of inferred resources. The coal deposit at the TNE Mine is considered to be a "surface" minable deposit, which means it will be all open-pit mining. Composite quality analyses indicate that the coal deposit at the Mine is a non-ranked brown coal which has potential for close-proximity-based electricity generation. For further details of the coal deposit in the TNE Mine, please refer to the Technical Report as contained in Appendix IV to this circular.

Other Mines

Apart from the Major Licences relating to the TNE Mine, the Target Group holds the Other Licences, i.e. the seven other exploration licences, for the Other Mines. Two of the Other Licences (being licences numbered 7173X and 7176X) are for the gold and copper deposits located in Zavkhan, Mongolia with a total area of approximately 15,517 hectares. Such mine is located at approximately 1,200 km from the west side of Ulaanbaatar, the capital city of Mongolia, which can be accessed through the paved Ururkhangai highway. Two of the Other Licences (being licences numbered 7367X and 7368X) are for the gold and copper deposits located in Gobi-Altai, Mongolia with a total area of approximately 44,016 hectares. Such mine is located at approximately 1,175 km from the west side of Ulaanbaatar, the capital city of Mongolia, which can be accessed through the paved Ururkhangai highway. Three of the Other Licences (being licences numbered 13189X, 13661X and 13662X) are for the coal deposits located in DundGobi, Mongolia with a total area of approximately 14,087 hectares. Such mine is located at approximately 198 km from the southeast side of Ulaanbaatar, the capital city of Mongolia, which can be accessed through the paved highway located between Ulaanbaatar and Zamiin-Uud.

Details of the Other Licences are summarized as follows:

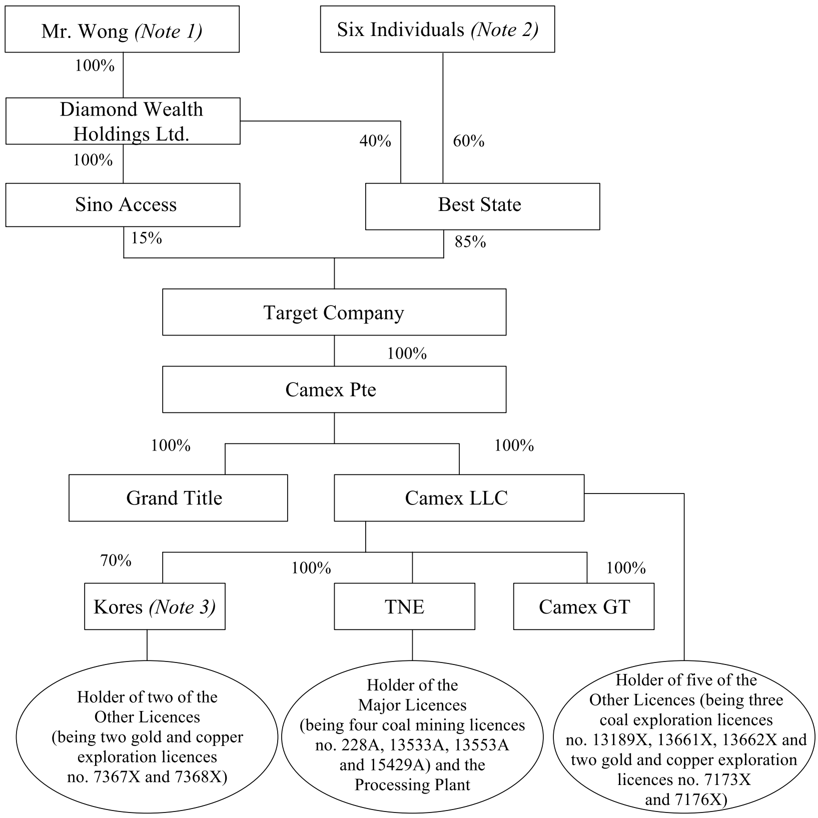
Licence No.		Description	First date of grant	Valid until
1.	7173X	Exploration – gold and copper	31 March 2004	31 March 2013
2.	7176X	Exploration – gold and copper	31 March 2004	31 March 2013
3.	7367X	Exploration – gold and copper	30 April 2004	30 April 2013
4.	7368X	Exploration – gold and copper	30 April 2004	30 April 2013
5.	13189X	Exploration – coal	25 January 2008	25 January 2011
6.	13661X	Exploration – coal	25 January 2008	25 January 2011
7.	13662X	Exploration – coal	25 January 2008	25 January 2011

As advised by the Mongolian legal adviser to the Company, pursuant to the Mineral Law of Mongolia, license registration is the responsibility of Geological and Mining Cadastre Department of Mineral Resource Authority of Mongolia and under the Mineral Law of 2006, (i) exploration licences are generally granted for a period of three years with the right to extend the period twice for three additional years each; (ii) an exploration licence holder can apply for a mining licence covering any portion of the exploration licence area; and (iii) mining licences are generally granted for a period of 30 years with the right to extend the period twice for 20 additional years per extension.

3. Shareholding structure of the Target Group

Set out below is the shareholding structure of the Target Group immediately before and after Completion:

Shareholding structure of the Target Group immediately before Completion



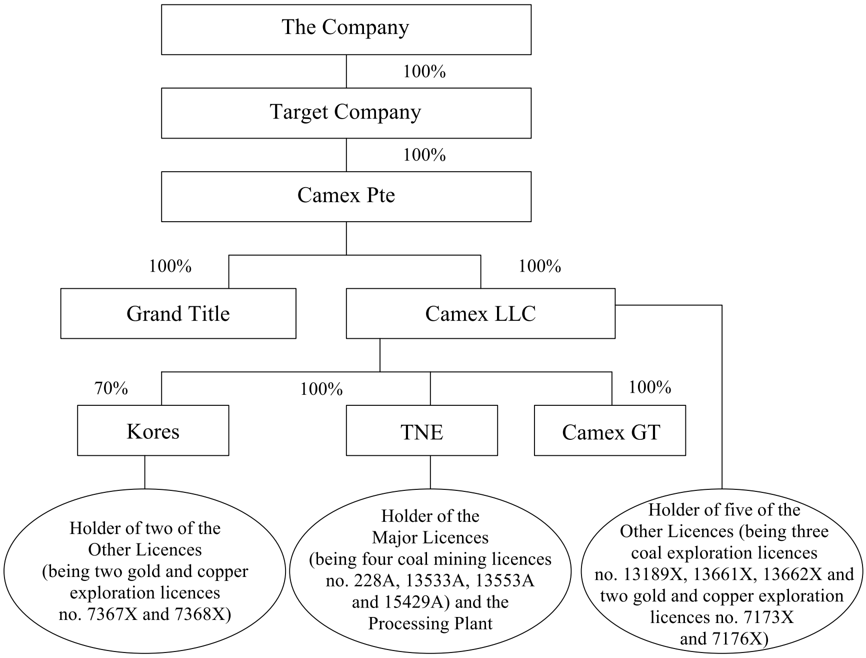
Notes:

1. *Mr. Wong is the sole beneficial owner of Diamond Wealth Holdings Ltd., which is the holding company of Sino Access and owns 40% of the issued share capital of Best State. Mr. Wong was a graduate of the University of Toronto with a Master degree in Business Administration. He has experience in the management of listed companies in Hong Kong. Currently he is not a director of any Hong Kong listed company. Prior to the entering into of the Memorandum of Understanding and the Acquisition Agreement, Mr. Wong has no business relationship with the Company.*

2. *The Six Individuals together interested in 60% of the issued share capital of Best State. As confirmed by the Vendors, none of them is a director of any Hong Kong listed company. Save for Miss Celestina Lim Shi Hui, who is a friend of Mr. Yeo Cheow Tong and is not acquainted with Mr. Wong, all other persons among the Six Individuals are friends of Mr. Wong. At present, (i) Mr. Yeo Cheow Tong is a Member of Parliament in Singapore; (ii) each of Mr. Tan Kah Hock, Mr. Batsukh Yadamsuren, Mr. Mashbat Bukhbat and Mr. Lim Siong Dennis is a businessman; (iii) Miss Celestina Lim Shi Hui is a business woman.*

3. *Kores is owned as to 70% by CAMEX LLC and 30% by Korea Resources Corporation. According to the information on its website, Korea Resources Corporation is a Korean government enterprise and was incorporated in 1967 under the "Korean Mining Industry Promotion Agency Act". It was initially established as an integrated supporting organization for the mining industry to provide assistance for the development of private mines and to develop the overseas mineral resources.*

Shareholding structure of the Target Group immediately after Completion



4. Financial information for the Target Group

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and financial results of the Target Group will be consolidated into the Group's consolidated accounts. Set out below is the extract of certain financial information from the respective accountants' reports for each of the Target Company, Camex Pte, Camex LLC, the full text of which, prepared in accordance with the Hong Kong Financial Reporting Standards, is set out in Appendix II to this circular.

Target Company

The Target Company is an investment holding company incorporated in BVI with limited liability on 3 November 2009. As at the Latest Practicable Date, the Target Company has not commenced any business operation since its incorporation and has no major assets or investment other than its holding of Camex Pte. Set out below is certain key audited consolidated financial information of the Target Company prepared on the basis to present the results and financial position of Camex Pte Group for the two years ended 31 December 2009:

	For the year ended 31 December 2009 (audited)		For the year ended 31 December 2008 (audited)	
	(Approximately US$'000)	*(equivalent to approximately HK$'000)*	*(Approximately US$'000)*	*(equivalent to approximately HK$'000)*
Turnover	–	–	–	–
Loss before taxation	(158,077)	(1,225,097)	(1,147)	(8,889)
Loss attributable to owners of the Target Company	(158,070)	(1,225,043)	(1,129)	(8,750)

The loss attributable to owners of the Target Company for the year ended 31 December 2009 of approximately US$158.1 million (equivalent to approximately HK$1,225.0 million) was mainly attributable to the share-based payment of approximately US$156.8 million (equivalent to approximately HK$1,215.2 million) included in the administrative expenses of the Target Company as arised from the Restructuring. For further details, please refer to note 29 to the financial statements of the Target Company set out in the accountants' report of the Target Company under section 1.1 of Appendix II to this circular. Based on the audited consolidated financial information of the Target Company set out under section 1.1 of Appendix II to this circular, the audited net asset value of the Target Company as at 31 December 2009 was approximately US$138.4 million (equivalent to approximately HK$1,072.6 million).

Camex Pte

Set out below is certain key audited consolidated financial information of Camex Pte for the two years ended 31 December 2009:

	For the year ended 31 December 2009 (audited)		For the year ended 31 December 2008 (audited)	
	(Approximately US$'000)	*(equivalent to approximately HK$'000)*	*(Approximately US$'000)*	*(equivalent to approximately HK$'000)*
Turnover	–	–	–	–
Loss before taxation	(158,076)	(1,225,089)	(1,147)	(8,889)
Loss attributable to owners of Camex Pte	(158,069)	(1,225,035)	(1,129)	(8,750)

The loss attributable to owners of Camex Pte for the year ended 31 December 2009 of approximately US$158.1 million (equivalent to approximately HK$1,225.0 million) was mainly attributable to the share-based payment of approximately US$156.8 million (equivalent to approximately HK$1,215.2 million) included in the administrative expenses of Camex Pte as arised from the Restructuring. For further details, please refer to note 31 to the financial statements of Camex Pte set out in the accountants' report of Camex Pte under section 2.1 of Appendix II to this circular. Based on the audited consolidated financial information of Camex Pte set out under section 2.1 of Appendix II to this circular, the audited net asset value of Camex Pte Group as at 31 December 2009 was approximately US$138.4 million (equivalent to approximately HK$1,072.6 million). As at 31 December 2009, an aggregate amount of approximately US$3.0 million (equivalent to approximately HK$23.3 million) was due from a director of Camex Pte; and (ii) an aggregate amount of approximately US$3.1 million (equivalent to approximately HK$24 million) was due to a director of Camex Pte. Pursuant to the terms of the Acquisition Agreement, if there is any net amount payable by the director of Camex Pte (which will be equivalent to the difference between the amounts due to/from director), such an amount will be fully repaid by such a director of the Camex Pte on or before Completion.

Camex LLC

Set out below is certain key audited consolidated financial information of Camex LLC for the two years ended 31 December 2009:

	For the year ended 31 December 2009 *(audited)*		**For the year ended 31 December 2008** *(audited)*	
	(approximately MNT'000)	*(equivalent to approximately HK$'000)*	*(approximately MNT'000)*	*(equivalent to approximately HK$'000)*
Turnover	–	–	–	–
Loss before taxation	(1,499,929)	(8,100)	(1,030,840)	(5,567)
Loss attributable to owners of Camex LLC	(1,490,233)	(8,047)	(1,009,813)	(5,453)

Based on the audited consolidated financial information of Camex LLC set out in section 3.1 under Appendix II to this circular, the audited net asset value of Camex LLC Group as at 31 December 2009 was approximately MNT187,616.4 million (equivalent to approximately HK$1,013.1 million).

The Directors would like to draw Shareholders' and investors' attention that, the reporting accountants, without qualifying their opinion, have issued an emphasis of matter on material uncertainty regarding the going concern assumption of the Target Group, Camex Pte Group and Camex LLC Group since (i) the Target Group had net current liabilities of US$271,000 as at 31 December 2009; (ii) Camex Pte Group had net current liabilities of US$270,000 as at 31 December 2009; and (iii) Camex LLC had capital deficiency of MNT1,027,212,000 (equivalent to approximately HK$5.5 million), MNT1,916,568,000 (equivalent to approximately HK$10.3 million) and MNT3,342,949,000 (equivalent to approximately HK$18.1 million) as at 31 December 2007, 2008 and 2009 respectively and Camex LLC Group had net current liabilities of MNT4,974,328,000 (equivalent to approximately HK$26.9 million), MNT9,007,855,000 (equivalent to approximately HK$48.6 million) and MNT11,373,275,000 (equivalent to approximately HK$61.4 million) as at 31 December 2007, 2008 and 2009 respectively. These conditions, along with other matters as disclosed in note 2 to each of the financial statements of the Target Group, Camex Pte Group and Camex LLC Group, indicate the existence of a material uncertainty which may cast doubt about the ability of the Target Group, Camex Pte Group and Camex LLC and Camex LLC Group to continue as a going concern. It is noted that each of the Target Group, Camex Pte Group and Camex LLC Group has not yet commenced revenue-generating activities and has certain capital commitments as at 31 December 2009. However, as further disclosed in note 2 to each of the respective financial statements of the Target Group, Camex

Pte Group and Camex LLC Group, the reports on the financial information of the Target Group, Camex Pte Group and the Camex LLC Group have been prepared on a going concern basis since certain beneficial owners of the Target Company have agreed to provide adequate funds to enable the Target Group, Camex Pte Group, and Camex LLC and Camex LLC Group to meet in full their financial obligations as they fall due. In addition, the Company has agreed to provide financial support to the Target Group, Camex Pte Group and Camex LLC and Camex LLC Group to enable the Target Group, the Camex Pte Group, and Camex LLC and Camex LLC Group to meet in full their respective financial obligations as they fall due upon Completion. For further details, please refer to the accountants' reports on the Target Company, Camex Pte and Camex LLC as contained in Appendix II to this circular.

5. Proposed business development plan on the Target Group

Following the entering into of the Acquisition Agreement, the Company has continued to conduct its due diligence work and feasibility studies on the Target Group. Set out below is a summary of the proposed business development plan of the Target Group on the Mines:

TNE Mine

TNE began exploration activities at the TNE Mine in 2005. As mentioned in the Technical Report, TNE drilled 10 exploration holes in 2006 and 21 exploration holes in 2007 in the resource area in the TNE Mine. No commercial production has yet occurred on the TNE Mine. Since the coal deposit is considered to be a "surface" mineable deposit, open-pit mining will be conducted on the TNE Mine.

As at the Latest Practicable Date, the TNE Mine has been equipped with certain facilities and infrastructures such as diesel tanks, pump stations, generator sets, vehicles and camps and the preliminary study on the drilling and trenching works on the TNE Mine have been commenced. Moreover, it is expected that a number of other heavy machineries are required to carry out the mining process on the TNE Mine and TNE intends to rent these machines from professional companies which are Independent Third Parties. As at the Latest Practicable Date, TNE has commenced the initial site formation work study on the TNE Mine. With a view to reducing the expected initial capital expenditure and speeding up the production plan of the TNE Mine, TNE intends to outsource its mining operation to the professional mining contractors. Site visits have been carried out by the potential mining contactors and TNE is currently in discussion with them and plans to finalise the appointment by July 2010. TNE will then confirm rental of the required heavy machineries (including excavators, bulldozers, loaders, mining trucks and graders) for the open-pit mining in the TNE Mine. Based on the feasibility studies conducted on the TNE Mine so far, it is expected that the TNE Mine will utilize a standard open-pit mining technology. The top soil will first be removed so as to expose the coal deposit and the interior of the open-pit mine will then be stabilised by bench making. Piping will then be laid in preparation for water draining, which is required before and during the coal is excavated from the mine. The dirt from the excavation will need to be separated from the coal before they are piled away and the excavated coal will be crushed into smaller sizes for easier storage, transportation or further processing. After that, the TNE Mine is expected to operate all year round. The main sources of energy required for the mining operation of TNE Mine will be electricity, diesel and water. As mentioned in the Technical Report, there is a power grid running parallel to the main railway line connecting China and Russia which is located approximately 22 kilometers from the TNE Mine. TNE will build infrastructure to connect to this power grid for the supply of electricity to the TNE Mine whereas TNE will place orders for diesels which will be sent to the TNE Mine by trucks. The TNE Mine will also be setting up with drinking water system and water supply for its coal mining operation. As at the Latest Practicable Date, the number of people employed by the Target Group and working on the TNE Mine is approximately 26 and this number is expected to increase to approximately 100 staff when the TNE Mine is running at production of two million tonnes of coal in 2011.

It is estimated that the TNE will start generating revenue in late 2010 with an initial output of approximately 300,000 tonnes of the near ground surface coal which will be of lower calorific value. From 2011 and onwards, the coal will be excavated from deeper layer in the TNE Mine which will have higher calorific value. Based on the initial production plan, it is expected that the annual production capacity of the TNE will be approximately 2 million tonnes in 2011 and will increase to approximately 2.5 million to 3.5 million tonnes from 2012 to 2014. The production on the TNE Mine is expected to increase gradually and will reach the anticipated full production output of approximately 8.6 million tonnes in 2019. Since the TNE Mine will adopt the open-pit mining technology, the increase in coal output volume would be achieved primarily through parallel expansion to the existing operation. Based on the preliminary five-year production plan of the TNE Mine from 2010 to 2014, the estimated capital expenditure and working capital requirement for its mining operation is set out as follows:

	2010	2011	2012	2013	2014
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Mining cost	2,130	13,121	17,042	21,422	25,724
Administration cost	4,043	4,701	5,083	5,417	5,788
Capital cost**	5,729	–	6,185	–	–
	11,902	**17,822**	**28,310***	**26,839***	**31,512***

* *The average of the total capital cost required in 2012, 2013 and 2014 is approximately US$30 million.*

** *The capital cost includes required investment in (i) equipment for mining operations; (ii) plant facilities, construction and improvements; (iii) office renovation and equipment; and (iv) vehicles for transportation.*

As stated in the table above, the estimated capital expenditure and working capital requirement for its mining operation is approximately US$12 million (equivalent to approximately HK$93 million) in 2010, approximately US$18 million (equivalent to approximately HK$140 million) in 2011, and an average of approximately US$30 million (equivalent to approximately HK$232.5 million) for each of 2012 to 2014. It is expected that such capital expenditure and requirement will be principally financed by the net proceeds from the Placing and the funds to be generated by the mining business of TNE. The net proceeds from the Placing is estimated to be in the range from approximately HK$450 million to approximately HK$474 million (depending on the actual number of Placing Shares), which will be used as to HK$200 million as part of the Consideration, approximately HK$93 million for the capital expenditure and funding requirement for the TNE Mine in 2010, approximately HK$54.3 million for the geological and exploration work on the Other Mines in 2010, and the remaining balance will be used for the capital requirement for the TNE Mine in 2011.

In considering the production volume expected to be excavated from the TNE Mine, the coal to be mined from the TNE Mine will primarily be sold to domestic customers, such as power plants, low pressure furnace operations and domestic households in Mongolia. Nevertheless, the Group would consider expanding its business to the export market in the future should suitable opportunities arise. As at Latest Practicable Date, TNE has signed a few memorandum of understanding with certain potential customers (which include a power plant and certain coal trading companies) for the supply of coal from the TNE Mine of over four million tonnes in aggregate. It is expected that the mining operation will be initially served by one mining engineer, one geologist and about ten supporting staff.

Other Mines

The Enlarged Group intends to expand the mining business through continuous exploration activities for coal, gold and copper deposits in the Other Mines. Given the Other Mines are only at the exploration stage, the Enlarged Group will appoint reputable exploration companies to review past exploration results (if any) and take charge of further geological and exploration work in the three other mines located in Zavkhan province (with gold and copper deposits), Gobi-Altai province (with gold and copper deposits) and DundGobi province (with coal deposits) of Mongolia.

The proposed exploration plan on the Other Mines may include, among other things, the following:

- analysis on tectonic of areas
- decoding aero photos or more detailed satellite image
- mapping
- field work (including exploration routes with accompanying geochemistry sampling)
- laboratory analysis of geochemistry samples
- analysis on results of geochemistry samples
- compilation of the maps of areas of work
- geophysical survey
- drilling
- analysis on borehole samples

It is estimated that approximately US$7 million (equivalent to approximately HK$54.3 million) will be required to carry out the relevant geological and exploration work on the Other Mines in 2010, which will be principally funded from the net proceeds of the Placing. After that, but in any event not later than eight months after the Completion Date pursuant to the terms of the Acquisition Agreement, the Second Technical Report and the Second Valuation Report shall be readily available for the determination of the issue of the Compensation Notes (the relevant details of which are set out under the paragraphs headed "Compensation" and "Compensation Note" in this letter). Upon the obtaining of the Second Technical Report and the Second Valuation Report, the Company will issue appropriate announcements and circular for the purposes of providing further information to the Shareholders as soon as practicable, which will contain, among other things, (i) further information on the Other Mines; (ii) the Second Technical Report (to be conducted with the requirements under Chapter 18 of the Listing Rules); and (iii) the Second Valuation Report.

Should there be any confirmation of substantial abundance of relevant resources in the areas under the Other Mines, the Enlarged Group intends to convert the relevant exploration licences into mining licences and examine the opportunity of commencing mining business (including coal, gold and copper) in the Other Mines. It is expected that further geological and exploration works will be carried out in the Other Mines which will incur additional estimated costs of approximately US$4 million (equivalent to approximately HK$31 million) in 2011 and US$3 million (equivalent to approximately HK$23.3 million) in 2012.

Proposed business strategies

Based on the proposed business development plan, it is the Enlarged Group's vision to become one of the major natural resources mining operators in Mongolia. The Enlarged Group will continue to seek opportunities to realise sustainable growth of the natural resources mining businesses and, in the future, extend into the gold and copper mining businesses. To achieve this, the Enlarged Group will:

- commence the mining operation in the TNE Mine in the fourth quarter of 2010;
- utilize advanced and efficient mining equipment in its mining operation;
- enter into memorandum of understanding with potential customers for the supply of coal at an early stage to assist in demand projection;
- focus on domestic customers initially and consider to expand into the export market should opportunities arise;
- cultivate and maintain a stable and recurring customer base;
- increase the sales and marketing team as capacity of the TNE Mine increases;
- continue further geological and exploration works for coal, gold and copper deposits in the Other Mines;
- convert exploration licences of areas with confirmed coal, gold and copper deposits into mining licences;
- maintain a senior management team who possesses the knowledge and business connection in the mining industry in Mongolia; and
- continue to recruit high caliber personnel for the development of natural resources mining business.

6. Potential competition facing the Target Group

The Target Group faces competition from other mining operators, in particular from those who have presence in Mongolia. Competition in the coal mining industry in Mongolia is mainly based on coal quality, coal price and transportation network. The Company expects that the principal competitors would be a number of large coal mines located in the country, some of which may have a substantial reserve with better mining conditions allowing them to excavate coal at a relatively lower production cost and others may produce coal with higher energy content commanding for a higher price. As described under the sub-paragraph headed "TNE Mine" in this section, the coal deposit at the TNE Mine is a non-ranked brown coal which has potential for close-proximity-based electricity generation. The energy content of such coal deposits are considered to be comparable to industry standards. Moreover, as the TNE Mine is one of the closest mine from the Ulaanbaatar City, the Directors believe that the TNE Mine has a competition advantage by enjoying lower transportation costs when transporting their coal products to the Ulaanbaatar City.

REASONS FOR THE ACQUISITION

As at the Latest Practicable Date, the Group is principally engaged in the provision of maintenance and construction works on civil engineering contracts in respect of waterworks engineering, road works and drainage and slope upgrading for the public sector in Hong Kong (the "Waterworks Engineering Business").

For the year ended 31 March 2009, the Group recorded a turnover of approximately HK$660.9 million and a profit for the year of approximately HK$6.4 million. As stated in the annual report of the Company for the year ended 31 March 2009, the financial performance of the Group in 2009, particularly its profitability, has experienced a significant decline as compared to the corresponding period of the previous year. The profit of the Group for the year ended 31 March 2008 was approximately HK$24.9 million. Such a decline was primarily attributable to the drop in gross profit margin of the Group as a result of the increasing raw material and labor costs. According to the interim results of the Group for the six months ended 30 September 2009, the Group recorded a turnover of approximately HK$278.5 million, representing a decrease of approximately 28.1% as compared to the corresponding period of the previous year, and a loss attributable to owners of the Company of approximately HK$8.7 million, which was mainly attributable to the provision for impairment of prepaid investment in Guangdong province, the PRC of approximately HK$3.7 million and decrease in profit margin.

In view of the fact that the financial performance of the Waterworks Engineering Business of the Group has been deteriorating, the Directors consider that it is beneficial for the Group to seek suitable investment opportunities from time to time to diversify its existing business portfolio and to broaden its source of income. To this end, the Company has identified the Target Group as an appropriate acquisition target to the Group and is of the view that the Acquisition would allow the Group to diversify into a new line of business with significant growth potential. Given Mongolia is well known for its possession of abundant natural resources, it is expected that it will provide a great potential for the Group's business growth if the Group is able to step into the natural resources business of Mongolia. Moreover, in recent years, it is noted that the global consumption for coal resources has increased substantially. Coal resources have gradually become the main energy resources in most of the energy consuming countries including the PRC. According to BP Statistical Review of World Energy 2009, the global coal reserve was approximately 826,001 million tonnes as at the end of 2008. The global coal consumption has increased during the past decade. The global coal consumption rose by approximately 3.1% in 2008 while the coal consumption in the PRC rose by approximately 6.8% in 2008, which represented more than double the average global coal consumption rate. In light of the expected continuous growth in demand for coal in the world, the Directors consider that the Group may broaden its source of income by diversifying its business to include coal exploration, mining and trading through the Acquisition. In consideration of the aforesaid, despite the fact that coal prices have decreased in the last few quarters, the Company considers that the mining industry relating to coal resources has considerable development potentials given there is still substantive demand for coal in the world, particularly in the PRC. Based on the Technical Report, the TNE Mine has approximately 64.0 million tonnes of brown coal (measured and indicated) in situ resources and an additional 27.9 million tonnes of inferred resources. Moreover, the Other Mines owned by the Target Group are granted with the Other Licences to further explore for additional coal, gold and copper deposits.

Prior to the signing of the Memorandum of Understanding and the Acquisition Agreement, the Company has made a due diligence site visit to the TNE Mine and Other Mines in Mongolia. The Company has also reviewed and studied certain research materials covering the general overview on the global and PRC mining resources industry. Apart from appointing a team of professional parties including legal advisers (both Hong Kong and Mongolia) and auditors, the Company has also requested an independent technical adviser and independent valuer to provide a preliminary draft technical report and valuation report on the TNE Mine so as to facilitate the Company's assessment on the Acquisition and the determination of the Consideration thereon. Although there is no track record of operation in the Mines, the Target Group holds the Licences which allow it to conduct exploration and/or mining activities in the Mines during the licensed period. Furthermore, as one of the conditions precedent to Completion, the Purchaser would receive a valuation report stating that the value of TNE or the value of the Major Licences being not less than US$250 million (equivalent to approximately HK$1,937.5 million). For this purpose, the Company has appointed BMI Appraisals Limited to conduct the Valuation Report and the value of TNE as appraised by BMI Appraisals Limited as of 31 December 2009 was US$320 million (equivalent to approximately HK$2,480 million), the full text of which is set out in Appendix V to this circular. Moreover, the terms of the Acquisition Agreement were arrived at after arm's length negotiation between the Vendors and the Purchaser and it has been agreed under the Acquisition Agreement that, Completion of the Acquisition is conditional upon, among other things, the conducting by the Purchaser (and to its satisfaction) of a due diligence review on the legal and financial aspects of the Target Group and the obtaining of a legal opinion issued by a Mongolian legal adviser.

Despite the dilution effect as a result of the issue of Consideration Shares and the conversion of the Convertible Note (details are set out in the paragraph headed "Effects on shareholding structure of the Company" above), taking into account that (i) the issue of the Consideration Shares and Convertible Note would not create any cash outlay to the Group immediately upon Completion; (ii) the Group could enter into the resource-related businesses in Mongolia; and (iii) the Acquisition may improve the financial performance of the Group in future, the Board considers the possible dilution effect on the Shareholders to be acceptable. The Directors consider that the Acquisition is an opportune investment for the Group to allow it to participate in a resources-related industry and expect that the Acquisition will present the Group with favourable long term prospects. Apart from expanding the business scope of the Company to engage in the mining business, it is the intention of the Company to continue with the Waterworks Engineering Business depending on the then business environment and prospects. In connection with the Waterworks Engineering Business, the Company plans to continue the provision of maintenance and construction works on civil engineering contracts in respect of waterworks engineering in Hong Kong and participate in water supply projects in the PRC. As a result, after Completion, apart from the Waterworks Engineering Business, the Group will participate in the mining business. As at the Latest Practicable Date, the Board does not have any arrangement or understanding or agreement or negotiation for asset disposal or further asset acquisition.

Nevertheless, the Directors consider the Acquisition may be posed with certain risks associated thereto (details of which are set out under the section headed "Risk factors" below). Having balanced the risks associated with the Acquisition and prospects of the mining industry, the Directors therefore believe that the Acquisition offers the Group a good opportunity to diversify into a mining business and to enhance the Group's income stream and are of the opinion that the terms of the Acquisition Agreement are fair and reasonable, on normal commercial terms and in the interest of the Company and its Shareholders as a whole.

PROPOSED NEW DIRECTORS

Three out of the four executive Directors, namely Mr. Yuen Chow Ming, Mr. Yuen Wai Keung and Mr. So Yiu Cheung (collectively, the "Three Executive Directors"), are beneficial owners of Robinhoods and have been responsible for the overall development and project management of the Waterworks Engineering Business for years. The other executive Director, Mr. Cheung Chi Man Dennis, being the chief financial officer of the Company, is responsible for the finance functions of the Group. Each of Mr. Cheung and the other three independent non-executive directors does not have any board representation and shareholding interest in Robinhoods. The Three Executive Directors will continue to develop the Waterworks Engineering Business for the Group despite the fact that Robinhood's interest in the Company will be diluted upon completion of the Acquisition. Although Robinhoods will cease to be the controlling shareholder of the Company upon completion of the Acquisition, the existing board members did have any plan of resignation as at the Latest Practicable Date.

Given the existing Directors do not have relevant experience in the mining business and they will continue to be responsible for the development of the Waterworks Engineering Business, the Company has agreed to allow the Vendors to appoint new Directors, up to four persons, for the purposes of managing and developing the mining business of the Target Group. The Vendors intend to nominate four persons as new Directors, namely Mr. Lim Siong Dennis, Mr Wong Tak Chung Andrew and two professional experts in the fields of exploration and mining of natural resources who are independent of and not connected with the Vendors, the ultimate beneficial owners of the Vendors, the Target Group and their respective associates. Mr. Lim and Mr. Wong Tak Chung Andrew are directors of the Target Company and are therefore nominated for the trust the Vendors have on their familiarity with the business of the Target Group and their management abilities. As at the Latest Practicable Date, the Vendors have also identified Mr. Enebish Burenkhuu, who has unique and extensive experience in the natural resources field and mining exploration works in Mongolia as one of the proposed Director. The Vendors are still in the course of finalising the remaining suitable candidate for the nomination to be a Director. Further announcement will be issued by the Company in this regard as and when appropriate.

Details of the biographies of the three proposed new Directors are set out below:

Mr. Lim Siong Dennis, aged 42, is a graduate of the Hong Kong Polytechnic University in hospitality management in 1990. He has substantial experience in the exploration and mining industry in Mongolia. Mr. Lim also possesses a wealth of experience in consumer products and, sales and marketing in Asia Pacific Region for a USA multinational corporation.

Mr. Lim has not entered into service agreement with the Company. Mr. Lim's appointment as an executive Director is not for a specific term as he is subject to retirement by rotation and re-election at annual general meetings in accordance with the Articles of Association of the Company.

Save as disclosed above, Mr. Lim is not related to any Directors, senior management or substantial or controlling Shareholders and he had not held any directorship in any other listed public companies in the three years immediately preceding the date of this circular. Mr. Lim has been the executive director of Camex LLC and director of Camex Pte. As at the date of this circular, Mr. Lim does not hold any share options to subscribe for the ordinary shares of the Company within the meaning of Part XV of the SFO as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Code.

In respect of Mr. Lim's appointment, there is no other information which is discloseable pursuant to any of the requirements of the provisions of rules 13.51(2)(h) to (v) of the Listing Rules, and there is no other matter relating to his appointment which needs to be brought to the attention of the holders of securities of the Company.

Mr. Wong Tak Chung, aged 50, is a fellow member of the Institute of Commercial Management in the United Kingdom and the Hong Kong Institute of Directors respectively.

Mr. T.C. Wong has not entered into service agreement with the Company. Mr. T.C. Wong's appointment as an executive Director is not for a specific term as he is subject to retirement by rotation and re-election at annual general meetings in accordance with the Articles of Association of the Company.

Mr. T.C. Wong was a director of Fortuna International Holdings Limited (renamed Goldin Financial Holdings Limited) until December 2008, the shares of which are listed on the Stock Exchange (stock code: 530). Save as disclosed above, Mr. T.C. Wong is not related to any Directors, senior management or substantial or controlling Shareholders and he had not held any directorship in any other listed public companies in the three years immediately preceding the date of this circular and does not hold any other positions in the Group. As at the date of this circular, Mr. T.C. Wong does not hold any interested in the Company within the meaning of Part XV of the SFO as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Code.

In respect of Mr. T.C. Wong's appointment, there is no other information which is discloseable pursuant to any of the requirements of the provisions of rules 13.51(2)(h) to (v) of the Listing Rules, and there is no other matter relating to his appointment which needs to be brought to the attention of the holders of securities of the Company.

Mr. Enebish. Burenkhuu, aged 49, graduated from the Geological Faculty of Mongolian Polytechnic University with a degree in geological engineering in 1984. Mr. Burenkhuu has over 25 years of experience in dealing with copper and other deposits evaluation and mining exploration works in Mongolia.

Mr. Burenkhuu has not entered into any service agreement with the Company in relation to his appointment. Mr. Burenkhuu's appointment as an executive Director is not for a specific term as he is subject to retirement by rotation and re-election at annual general meetings in accordance with the Articles of Association of the Company.

Mr. Burenkhuu does not hold any directorships in any public listed companies nor other major appointment in the past three years. He does not have any relationships with any of the Company's directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules). As at the date of this circular, Mr. Burenkhuu does not have any interests in any Shares or underlying Shares within the meaning of Part XV of the SFO.

Save for the information disclosed above, Mr. Burenkhuu has confirmed that there is no other information which is required to be disclosed pursuant to paragraphs (h) to (v) of Rule 13.51(2) of the Listing Rules nor any other matters relating to his appointment that need to be brought to the attention of the Shareholders.

Following Completion, appropriate Announcement will be made by the Company in relation to the proposed appointment of new Directors in compliance with the requirements under the Listing Rules.

Apart from the new Directors to be nominated by the Vendors who are expected to have relevant experience in the mining business, the Company is in the process of seeking competent staff with appropriate qualification and experiences in the management of exploration and mining business.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and financial results of the Target Group will be consolidated into the Group's consolidated accounts.

As illustrated in the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to this circular, subsequent to Completion, the total consolidated net assets attributable to owners of the Company would increase from approximately HK$376.8 million as at 30 September 2009 to approximately HK$1,943.6 million on the assumption that the Acquisition had taken place on 30 September 2009. The total assets would increase from HK$459.6 million to HK$3,576.5 million and the total liabilities would increase from HK$82.5 million to HK$1,632.6 million. Based on the unaudited pro forma consolidated income statement of the Enlarged Group, the profit for the year ended 31 March 2009 of approximately HK$6.4 million would turn to a loss of approximately HK$1,323.3 million. The earning per Share attributable to owners of the Company would change from HK$0.71 cents to a loss per Share of HK$19.26 cents. Having considered the future prospects of the mining industry, the Board expects that the Acquisition will have a positive impact on the earnings of the Group in the future.

VALUATION OF TNE

The Company has appointed BMI Appraisals Limited, an independent firm of valuers, to conduct the Valuation Report and the value of TNE as appraised by BMI Appraisals Limited as of 31 March 2010 was US$320 million (equivalent to approximately HK$2,480 million). In arriving at such valuation, BMI Appraisals Limited has applied the income approach with the use of the discounted cash flow method under which, value depends on the present worth of future economic benefits to be derived from TNE. The full text of the Valuation Report, including details of the valuation methodology and assumptions, is set out in Appendix V to this circular.

The Directors are aware that the valuation of TNE shall be regarded as a profit forecast of the Group under the Listing Rules. Based on the information available to the Directors following the discussion with BMI Appraisals Limited, the Directors consider that the valuation of TNE has been made after due care and consideration.

Grant Thornton, the Company's auditors, have reviewed the arithmetical accuracy of the calculations of the cashflow forecast (the "Underlying Forecast") underlying the valuation prepared by the management of the Company for the purpose of the valuation of TNE. Based on their review, so far as the arithmetical accuracy of the calculations are concerned, the Underlying Forecast has been properly compiled in accordance with the assumptions made by the management of the Company. A copy of the letter from Grant Thornton in relation to the aforesaid is set out in Appendix VI to this circular.

Optima Capital Limited, the Company's financial adviser, after discussion with the management of the Company and BMI Appraisals Limited regarding the bases and assumptions of the valuation and the Underlying Forecast and reviewing the letter issued by Grant Thornton as set out in Appendix VI to this circular, is of the opinion that the Underlying Forecast, for which the management of the Company is solely responsible, has been made after due care and consideration. A copy of Optima Capital Limited's letter is reproduced in Appendix VI to this circular.

FUNDING REQUIREMENTS

The Directors expect that, in the absence of unforeseen circumstances, the estimated funding requirement for the Enlarged Group for the two years following the issue of this circular will be approximately HK$2,159 million, which will be primarily used as general working capital and business developments of the Enlarged Group (including the Waterworks Engineering Business, purchase of mining machineries, payment for geological and exploration costs). The Directors intend to finance such funding requirement by internal resources (including the funds generated and to be generated by the Waterworks Engineering Business and the mining business of the Enlarged Group), net proceeds from the Placing, borrowings and/or net proceeds from any fund raising activities by the Enlarged Group.

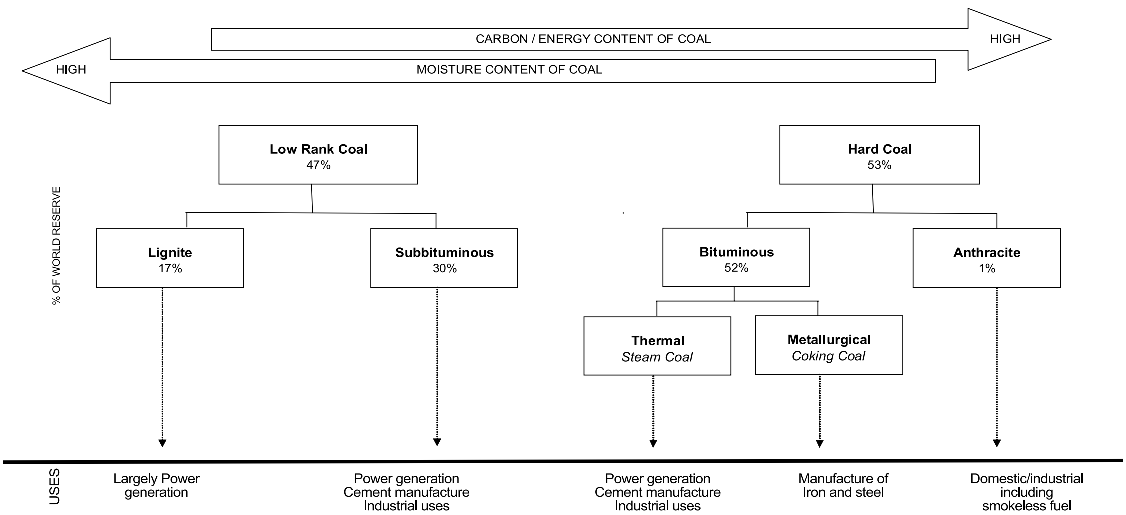
The Directors further estimate that, (i) the amount required to enable the Enlarged Group to exploit the proven reserves and commence recoveries on a commercial scale on the TNE Mine will be approximately US$12 million (equivalent to approximately HK$93 million); (ii) it would take approximately six to eight months for the Enlarged Group to exploit the proven reserves and commence recoveries of the TNE Mine on a commercial scale after Completion; and (iii) for the two years following the issue of this circular, the Enlarged Group is expected to have a total cash inflows of approximately HK$2,113 million from its existing businesses and the operation of the TNE Mine.

INDUSTRY OVERVIEW

1. Coal

Description on coal and its application

Coal is a fossil fuel which is composed mainly of carbon, hydrogen and oxygen. There are various categories of coal, which are dependent on the degree of change undergone by the coal as it matures. This process is known as coalification which has an important bearing on the physical and chemical properties of coal and is referred to as the rank of coal. The following diagram summarises the different types of coal and the associated end-users.



Source: World Coal Institute ("WCI") — The Coal Resource (2005)

Low rank coals, such as lignite and subbituminous coals, are typically softer, friable materials with a dull, earthy appearance. They are characterised by high moisture levels and low carbon and energy content. Higher rank coals, such as coking coal and anthracite, are generally harder and stronger and often have a black, vitreous lustre. They contain more carbon, have lower moisture and higher energy content.

Coal has many important uses worldwide. The most significant uses are in electricity generation, steel production, cement manufacturing and as a liquid fuel. Different types of coal have different uses. Steam coal, also known as thermal coal, is mainly used in power generation. Coking coal, also known as metallurgical coal, is mainly used in steel production.

Global coal consumption

The global coal consumption has been increasing during the past decade, the CAGR of which was approximately 4.5% from 2004 to 2008. According to the BP Statistical Review of World Energy 2009, the five largest coal users in 2008 were China, USA, India, Japan and South Africa which accounted for an aggregate of approximately 74% of total global coal use. The following table sets forth general information on the global coal consumption for the past few years:

Million tonnes *oil equivalent*	**2004**	**2005**	**2006**	**2007**	**2008**	**2008 share of total**
North America	603.0	614.9	606.1	614.6	606.9	18.4%
South & Central America	20.5	20.8	20.9	22.5	23.3	0.7%
Europe & Eurasia	527.8	514.1	526.6	528.9	522.7	15.8%
Middle East	9.0	9.1	9.1	9.3	9.4	0.3%
Africa	103.4	100.8	102.3	105.7	110.3	3.3%
Asia pacific (other than China)	519.5	547.1	562.2	599.9	624.9	18.9%
China	983.0	1,100.5	1,215.0	1,313.6	1,406.3	42.6%
World total	**2,766.2**	**2,907.4**	**3,042.3**	**3,194.5**	**3,303.7**	**100.0%**

Sources: BP Statistical Review of World Energy 2009

Global coal reserve

According to BP Statistical Review of World Energy 2009, the global coal reserve was approximately 826,001 million tonnes as at the end of 2008. It comprises anthracite, bituminous, sub-bituminous and lignite. Coal reserves are available in almost every country worldwide, with recoverable reserves in around 70 countries. There are approximately 78.1% of the total coal reserves distributed in the US, Russia, China, Australia and India. The following table sets out the coal reserves in the top five countries at the end of 2008:

Ranking	Country	Proven reserves *(Million tonnes)*	Percentage *(%)*
1	United States of America	238,308	28.9
2	Russia	157,010	19.0
3	China	114,500	13.9
4	Australia	76,200	9.2
5	India	58,600	7.1

Sources: BP Statistical Review of World Energy 2009 and WCI.

Global coal production

The global coal production has been increasing during the past few years, which has increased by 5.3% from 3,149.5 million tonnes in 2007 to 3,324.9 million tonnes in 2008. The global coal production grew at a CAGR of approximately 5.03% from 2004 to 2008. The following table sets forth general information on the global coal production for the past few years:

Million tonnes *oil equivalent*	**2004**	**2005**	**2006**	**2007**	**2008**	**2008 share of total**
North America	611.8	620.9	635.2	630.6	638.4	19.2%
South & Central America	43.0	46.3	50.9	54.0	55.5	1.7%
Europe & Eurasia	438.7	438.4	445.3	447.0	456.4	13.7%
Middle East	0.6	0.6	0.5	0.5	0.5	- **
Africa	140.9	140.7	140.5	142.1	143.4	4.3%
Asia pacific (other than China)	484.8	517.1	558.9	593	616.2	18.6%
China	1,012.1	1,120.0	1,205.1	1,282.4	1,414.5	42.5%
World total	**2732.0**	**2,884.2**	**3,036.3**	**3,149.5**	**3,324.9**	**100.0%**

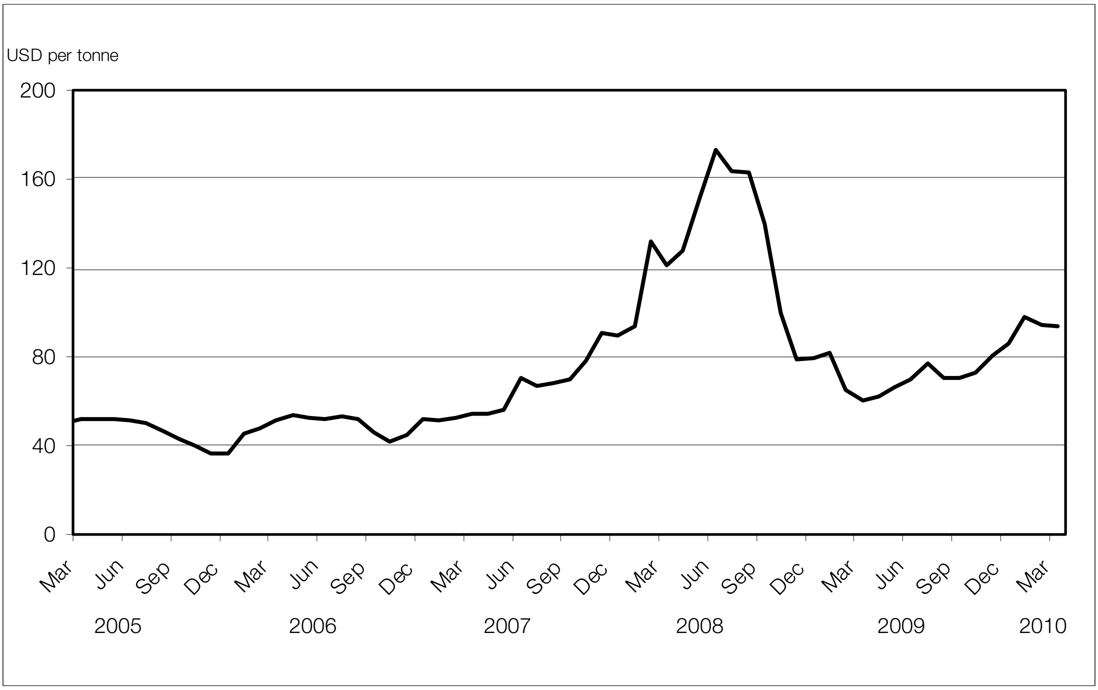
** *Less than 0.05%*

Sources: BP Statistical Review of World Energy 2009

Pricing

In general, during the past few year, the coal price has increased moderately from 2005 to 2007 and began to surge since 2008. The coal price reached a peak in mid 2008 and returned to a price level slightly higher than that of 2005 to 2007 before the surge in the First half of 2008.

Set out below in the Historical movement of spot prices of coals (principally for power generation) from 2005 to 31 March 2010:



Source: McCloskey Newcastle 6700 Kcal GAD FOB steam coal spot price quoted from Bloomberg

Global coal prices have increased gradually since late 2006. As illustrated above, the coal price increased from approximately US$53.1 per tonne in January 2005 and recorded a historical high of approximately US$192.5 per tonne in the first week of July 2008. The coal price subsequently dropped significantly from the peak in July 2008 to approximately US$60.2 per tonne at the end of March 2009. Since then, the coal price has slightly increased and reached approximately US$80 per tonne at the year end of 2009. In the first quarter of 2010, the coal price remained at the level of above US$90 per tonne.

2. Gold and copper

Description of gold and its application

Gold is both a commodity and a monetary asset. Gold is virtually indestructible and the majority of above-ground stocks could easily be mobilized. It is primarily used in the fabrication of jewellery, coins and industrial and dental sectors. As a monetary asset, gold is held by central banks, government bodies, such as the International Monetary Fund and the European Central Bank, and investors as a risk management tool and an investment.

According to World Gold Council, at the end of 2008, the world gold reserves was approximately 29,726.6 tonnes.

Global gold demand

In 2009, fabrication and implied net investment accounted for approximately 56.5% and 33.4% respectively of the world gold demand. The total world demand for gold increased by 6.6% from 3.862 tonnes in 2008 to 4,118 tonnes in 2009. Total fabrication demand decreased by 19.4% to 2,326 tonnes. Implied net investment increased by 482.5% to 1,375 tonnes. Set out below is a summary of world gold demand from 2008 to 2009:

Demand	**2008**	**2009**	**year-on-year change (%)**	**2009 share of total (%)**
Fabrication				
Jewellery	2,192	1,687	(23.0)	41.0
Other	692	639	(7.7)	15.5
Total fabrication	2,885	2,326	(19.4)	56.5
Bar hoarding	392	174	(55.7)	4.2
Net producer de-hedging	349	242	(30.6)	5.9
Implied net investment	236	1,375	482.5	33.4
Total Demand	**3,862**	**4,118**	**6.6**	**100.00**

Source: GFMS Ltd., a precious metals consultancy company based in London, UK and specializing in research into the global gold, silver, platinum and palladium markets ("GFMS")

Fabrication demand represents demand from jewellery consumption, the industrial and dental sectors. Jewellery consistently accounts for the largest share of total demand during the past two years. According to World Gold Council, jewellery demand is seasonal and affected by different cultural and social factors but the core attitudes towards gold across different markets are common. In 2009, Jewellery fabrication fell by 505 tonnes to a 21-year low of 1,687 tonnes. It represented almost the half total of the 1997 peak of 3,294 tonnes and the slump in percentage terms represented approximately 23%. For the implied net investment, it soared to 1,375 tonnes for 2009 as a whole. This was mainly due to a particularly strong surge in Exchange-traded Fund holdings and physical investment, due chiefly to counter-party risk fears, in early 2009. Moreover, there were concerns about quantitative easing leading to inflation, low real interest rates and periods of dollar weakness. In addition, demand for official coins was also very strong and recorded a 23-year high in 2009. These factors contributed to the increase in demand for gold for the year. In contrast, as shown in the table above, there was a 218 tonnes drop in bar hoarding which was mainly relating to South-East Asia and India.

Global gold supply

The world gold supply is mainly from mine production and old gold scrap which accounts for approximately 62% and 37.4% respectively in 2009. Mine production expanded by 6% from 2008 to 2009 and hit a six-year high to 2,553 tonnes, which added 144 tonnes after three consecutive years of decline. Global gold scrap supply surged by around 26.6% to a new record high of 1,541 tonnes in 2009. Set out below is a summary of world gold supply from 2008 to 2009:

Supply	**2008**	**2009**	**year-on-year change (%)**	**2009 share of total (%)**
Mine production	2,409	2,553	6.0	62.0
Net official sector sales	236	24	(89.8)	0.6
Old gold scrap	1,217	1,541	26.6	37.4
Total Supply	3,862	4,118	6.6	100.0

Source: GFMS

According to GFMS, much of the rise of scrap supply was recorded in the first half of 2009 as weaker currencies pushed domestic gold prices to record levels in several countries, generating a surge of metal being returned to market. In contrast, the second half only produced modest year-on-year gains, despite the sharp rally in the dollar gold price. Net official sector sales in 2009 reached their lowest level in more than two decades, at 24 tonnes, and almost 90% decrease as compared to the previous year.

The table below shows the top ten gold producing countries for 2008 and 2009.

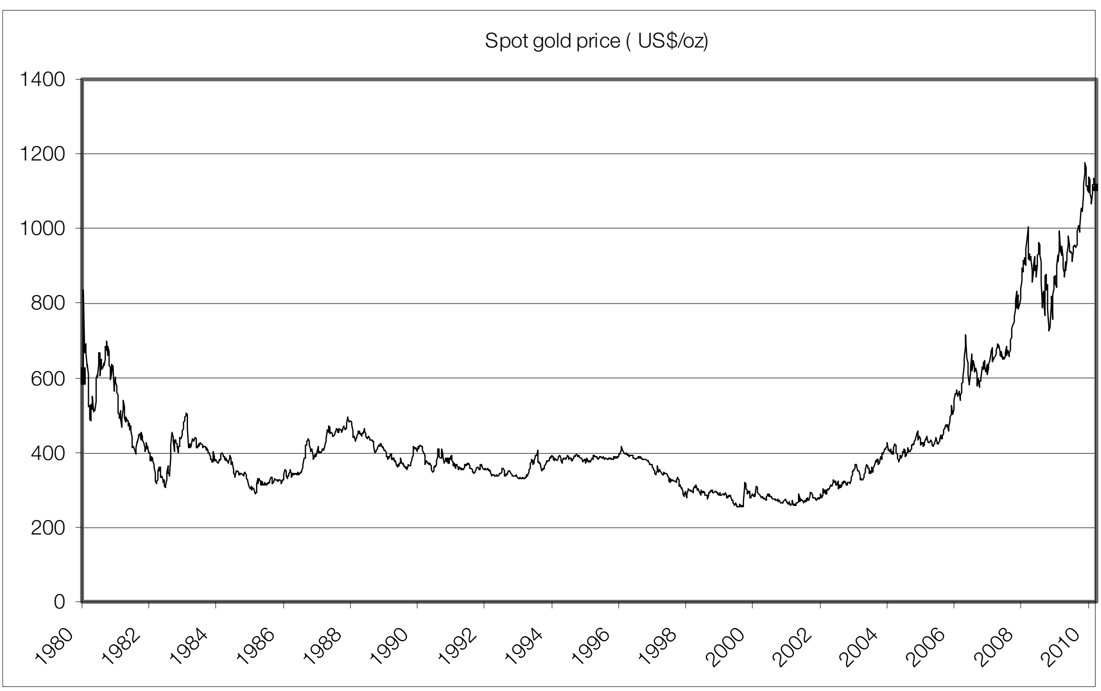
	2008 (tonnes)	**2009 (tonnes)**	**year-on-year change (%)**
China	292	330	13
Australia	215	223	4
South Africa	234	222	(5)
United States	234	214	(9)
Russia	189	213	13
Peru	179	180	1
Indonesia	95	146	55
Canada	95	95	0
Ghana	80	87	8
Uzbekistan	73	74	2
World Total	2409	2553	6

Source: GFMS

In 2009, China was the largest gold producing country, producing 330 tonnes of gold. Indonesia recorded a strong growth in gold production of approximately 55%. Indonesia, China and Russia were the top three countries in terms of growth in gold production, which together accounted for 113 tonnes of the increase.

Gold price

Prior to 1983, gold prices were relatively volatile. From 1983 to 2000, gold prices became stable and were within the range of US$200/oz to US$600/oz. Since 2000, gold prices have shown a positive trend. The following chart shows the closing spot gold price in U.S. dollars between 1 January 1980 and 31 March 2010.



Source: Bloomberg

The average gold spot price from 1 January 1980 to 31 March 2010 was US$ 436.91/oz. During this period the gold price peaked at US$1,177.63/oz as at 27 November 2009, and the lowest price was US$253.75/oz as at 27 August 1999. The average spot price for gold increased by 11.67% from US$872.25/oz in year 2008 to US$ 974.02/oz in year 2009.

Copper – A by-product commodity

Copper is a non-precious metal and usually found in nature in association with sulfur. Copper is mainly used in construction, electrical and electronics products, transportation equipment, industrial machineries and consumer and general products. According to GFMS, 2009 global production for copper was 18,067,000 tonnes, representing a 1% decrease from 2008. The global consumption for copper in 2009 was 17,673,000 tonnes, representing a 2% decrease from 2008. Global supply of copper is mainly sourced from mine production and refined mine production. China was the largest producer of refined copper and produced 4,020,000 tonnes, representing approximately 22.3% of the global refined copper production in 2009. The average price of copper in 2009 was US$5,150 per tonne, representing a 25.9% decrease from the average price of US$6,952 per tonne in 2008.

3. Mining Industry in Mongolia

Overview of Mongolia

Mongolia is a country located in the landlocked plateau of Central Asia between China and Russia. The country has a total area of approximately 1,566,500 square km. As of July 2007, the population of Mongolia was approximately 2.95 million, and at the end of 2009, about 40% of the population lived in Ulaanbaatar, the capital and largest city of Mongolia. The GDP of Mongolia was approximately MNT6,130.3 billion (equivalent to approximately USD5.24 billion). Mongolia is rich in mineral resources such as coal, copper, molybdenum, uranium, gold, tin and tungsten.

Source: Foreign Investment and Foreign Trade Agency of Mongolia

Mining Sector

According to the Foreign Investment and Foreign Trade Agency of Mongolia, the mining sector is Mongolia's single largest sector. It employs over 12,000 people and offers great investment opportunities for investors due to various factors including its mineral potential, mining legislation and strategic location, etc. The mineral resources of Mongolia were largely unexplored and unexploited. There were about 80 types of minerals discovered in Mongolia, of which the most valuable were coal, copper, fluorspar, gold, oil, molybdenum, phosphor and zinc, etc. Since 2001, the number of exploration licenses held has increased five-fold. The mining industry contributed to approximately 28.2% to the total GDP in 2008.

According to the Mineral Resources Authority of Mongolia (MRAM), the government implementing agency under the Ministry of Mineral Resources and Energy, the economic reform of the Mongolian administration and privatization process in the mining sector has made Mongolia attractive for mining investors, both international and domestic. One of the goals of the Mongolian government and MRAM is to put the minerals into economically productive circulation. In 2008, mining sector constituted 64.3 % of gross industrial product and 80.7% of the total export of the country. In addition, the mining sector constituted a major part of the Mongolian economy in the past four years.

Coal consumption in Mongolia

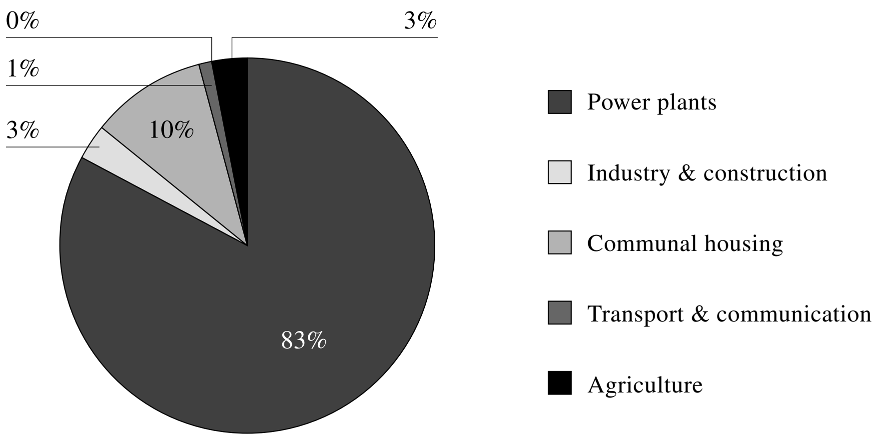
From 2004 to 2008, the domestic coal consumption in Mongolia has been generally increasing and recorded a CAGR of approximately 3%. The following table sets forth the annual domestic coal consumption:

	2004	**2005**	**2006**	**2007**	**2008**
			(Million tonnes)		
Total domestic coal consumption	5,188.50	5,472.60	5,691.20	5,906.10	5,843.20

Source: Statistical Yearbook of Mongolia, 2006 and 2008

The domestic coal consumption in Mongolia was principally consumed by electricity generation. In 2008, approximately 83% of the domestic coal consumption in Mongolia was attributed by power plants. The diagram below presents the key users of coal in Mongolia in 2008:

Coal Consumption in 2008 by Segment



Source: Statistical Yearbook of Mongolia 2008

Coal production in Mongolia

The coal production in Mongolia has been growing from 2005 to 2009 at a CAGR of approximately 14%, and this growth rate has accelerated since 2008. In 2009, approximately 54% of Mongolia's coal production was exported, up from approximately 42% in 2008. The following table sets forth the annual domestic coal production:

	2005	**2006**	**2007**	**2008**	**2009**
			(Million tonnes)		
Total domestic coal production	7.8	7.9	8.8	9.8	13.2

Source: Monthly Bulletins of the National Statistical Office of Mongolia (December 2006 and December 2009 issues)

Transportation

The Mongolian transportation sector consists of four sub-sectors, namely road transport, railway transport, air transport and water transport. It plays an important role in the development of Mongolia which is unique with its vast territory and sparsely settled population.

According to World Bank, about 13% of all roads in Mongolia are paved, another 30% of the roads are gravel or formed earth and more than half of the country's roads are simply earth tracks. Mongolia would need emergency assistance for the transportation sector in order to carry out maintenance of existing roads and construction of new ones. However, budget constraints of the recent years have resulted in minimal investments in road maintenance, while the spacious territory and sparse population provide little incentive to develop new roads. Transportation on these roads is problematic and is often impossible in winter, which is undermining regional growth and development. Thus, the World Bank recently approved a credit for the Transport Department to help connect marginalized areas, improve roads and reduce environmental degradation associated with poor road conditions.

Based on the information published by the Ministry of Road, Transport, Construction and Urban Development of Mongolia, the government of Mongolia has created some strategies for the transportation sector encompassing expected goals for the long term and anticipated budgets relating to the development of national transport. The government of Mongolia plans to expand the existing road and railway network and has adopted a program in 2008 which will be implemented to 2015 for the construction of a secondary railway line, Asian Highway Routes in Mongolia, transport and trade logistics and terminals, etc. In addition, the major projects of the government of Mongolia in future include the construction of Gobi region railway line, east region railway line and a new international airport.

4. Regulatory Framework

The Group's Mongolian legal advisers, Anand & Batzaya Advocates, have confirmed that they have reviewed the summaries of Mongolian laws and regulations set out in this document and that, in their opinion, the summaries below are correct. If any person wishes to obtain a detailed description of the relevant Mongolian laws and regulations or legal advice regarding the same, it is recommended that independent legal advice should be sought.

Mongolian laws and regulations relating to minerals and mining

Mineral exploration and mining activities and other minerals related matters in Mongolia are mainly governed by The Mineral Law of Mongolia (the "Mineral Law"), which was adopted in 2006. Prior to the Mineral Law becoming effective, Mongolian mining policies and activities were governed by a set of 1997 Mineral Law, which was superseded and replaced by the Mineral Law when it became effective on August 2006. The Geology and Mining Cadastre Division ("GMCD") of the Mineral Resources Authority of Mongolia ("MRAM") is the main authority in charge of the mineral related activities.

According to the Mineral Law, all mineral resources naturally occurring on and under the earth's surface in Mongolia are the property of the State of Mongolia. The State of Mongolia, as the owner, has an authority to grant exploration and mining rights to other persons. The relevant members of the Target Group which hold a mining licence, as holders of such licences granted by the State of Mongolia, shall have the rights to exploit all minerals except water, petroleum and natural gas from the Mines, sell the minerals so exploited subject to payment of applicable royalties and income taxes, and to hold such minerals for the period up to the expiration of the relevant mining licences provided that all applicable legal requirements are complied with. The maximum validity period for a mineral exploration licence is 9 years and that for a mineral mining licence is 70 years, excluding the exploration and feasibility study period.

Regulatory structure

Regulation and governance of minerals exploration and mining activities in Mongolia are made through (i) the Parliament, (ii) the Government, (iii) the Ministry of Mineral Resources and Energy and (iv) the MRAM, acting through the GMCD.

Registration records kept by GMCD of MRAM are definitive records of the holders of minerals exploration licences and mining licences granted pursuant to the Mineral Law. Holders of minerals exploration licences and mining licences shall register with GMCD pledges and transfers of exploration licences and mining licences for the same to be effective. Pledges, transfers and certain other transactions are recorded on endorsement sheets that are separate from, but considered to be an integral part of, each exploration licence or mining licence certificate, as the case may be. However, other potential encumbrances on minerals licences such as potential contractual obligations of the licence holder will not be registered by GMCD.

Mineral deposits of strategic importance

It is provided under the Mineral Law that the Mongolian Government has a discretion to designate any mineral deposits as "deposits of strategic importance" if such mineral deposits may have a potential impact on national security, economic and/or social development of Mongolia, or that such mineral deposits are producing or are capable of producing revenues that are equal to or are greater than 5% of the gross national product of a particular year. The State Ikh Khural (the Parliament) shall have the final decision as to which deposits are of strategic importance. Up to February 2007, the Parliament has designated 15 deposits as of strategic importance.

The Mongolian Government is entitled to participate on an equity basis with holders of mining licences for mines which have "deposits of strategic importance". If state-funds were used to initially identify or explore the deposit, the Mongolian Government may participate up to 50% of equity interest of the licence holders. If private funds only were used to identify or explore the deposit, the Mongolian Government may participate up to 34%. The details with respect to such participation of the Mongolian Government shall be negotiated and settled between the Mongolian Government and the relevant licence holders.

In addition, according to the Mineral Law, a legal entity holding mining licences for mines which have "deposits of strategic importance" is required to list no less than 10% of its shares on the Mongolian Stock Exchange. There has been no attempt by the Mongolian Government to enforce this provision and it is not clear how this provision will be implemented in practice.

As advised by the Mongolian legal advisers of the Group, none of the Mineral Resources is currently designated as "deposits of strategic importance". There is no assurance that any of the Mineral Resources will not be so designated by the Mongolian Government in the future, but the Mongolian legal advisers confirm that they currently are not aware of any reasons that such designations are likely to be made.

Regulation on exploration licence

According to the Mineral Law, only legal entities registered in Mongolia are eligible to apply for and hold an exploration licence. Application for an exploration licence shall be submitted to GMCD together with (i) a certified copy of the applicant's State Registration Certificate; (ii) a map showing the boundaries of the relevant exploration area under the application and the name of the province and sub-province where the exploration area is located; (iii) documentary proof of payment of applicable fees; and (iv) documentary proof of the qualifications of the staff allocated for conducting and/or overseeing the exploration work.

The Province (Aimag) Governor shall have the right to object to the grant of an exploration licence. According to the Mineral Law, if the Province Governor wishes to object to the grant of an Exploration Licence, he shall submit his reasons of such objection to the MRAM within thirty (30) days following receipt of notice of the licence application from the MRAM, which reasons shall be based on the laws of Mongolia. If the Province Governor does not timely submit his or her reasons for objection, it shall be deemed that he or she has approved the grant.

Rights and obligations of holders of exploration licences

A holder of an exploration licence has the rights to (i) access the licence area stipulated under the exploration licence (the "Licence Area"), provided that if obtaining access to the Licence Area requires passing over lands owned or possessed by others, to traverse such lands subject to terms and conditions negotiated with such owners or possessors; (ii) to conduct exploration activities throughout the Licence Area; and (iii) to construct temporary structures within the Licence Area related to its exploration activities. However, all such activities must be conducted in compliance with relevant laws on environmental protection and reclamation.

Holders of exploration licences shall promptly pay the relevant licence fee as described below and comply with all provisions under the Mineral Law.

Licence fees and minimum amounts of exploration expenditures

Pursuant to the Mineral Law, annual licence fees are payable based on the size of the Licence Area for each exploration licence. As advised by the Mongolian legal advisers of the Group, so far as they are aware, there are no outstanding annual licence fees payable in respect of the Other Licences.

In addition to the licence fees, holders of exploration licences shall spend certain exploration expenditures annually in respect of the Licence Area on its exploration work in accordance with the Mineral Law. As advised by the Mongolian legal advisers of the Group, so far as they are aware, there has been no violation by the Target Group on such exploration expenditures requirements.

Validity period and renewal

Pursuant to the Mineral Law, an exploration licence shall be granted for an initial period of three (3) years. An exploration licence holder may apply for renewal or extension of such licence for two additional successive periods of three (3) years each. Thus the maximum period that an exploration licence may be held is nine (9) years from the initial date of issue. Upon expiration of the maximum period that an exploration licence may be held, all rights under such exploration licence will automatically be returned to the Government of Mongolia.

If the holder of an exploration licence intends to renew and extend its exploration licence, it shall submit a renewal application to GMCD within one (1) month before the expiration date of such exploration licence together with (i) the original exploration licence; (ii) receipts proving payments of all annual licence fees and service fees during the initial licence period; (iii) documentary proof showing that the required minimum amounts of exploration expenditures have been paid; (iv) approval of renewed environmental protection and reclamation plan by the relevant authorities; and (v) a report on completion (or if not completed, status) of various exploration work conducted on the Licence Area up to the time of renewal application.

Revocation or termination of exploration licences

Each exploration licence is subject to revocation or termination by MRAM if (i) the licence fees are not paid within the specified period; (ii) requirements under the Mineral Law are not complied with; (iii) all or part of the Licence Area has been designated as "special needs land" (as more particularly described below) and the holder of the relevant exploration licence has been fully compensated; (iv) the required minimum amounts of exploration expenditures are not paid; or (v) the State Central Administrative Agency in charge of environmental protection and reclamation matters has decided, based on reports from the local administrative bodies, that the licence holder had failed to fulfill its environmental protection and reclamation duties.

According to the Mineral Law, MRAM may also revoke an exploration licence if the Licence Area is designated as "special needs land". A piece of land may be designated as "special needs land" if it shall be or is required to be used as:

- special protected areas;
- land allocated for ensuring national defence and security;
- land granted to foreign diplomatic and consular offices and representative offices of international organizations;
- properties reserved for conducting scientific and technological tests and experiments and permanent environment and weather prediction and observation;
- inter-Aimag reserve pastures;
- State fodder resource hayfields;
- Oil area covered by the contract or licence to be used for exploration in accordance with the contract on sharing product; and
- free trade zone land.

The governing authorities revoking an exploration licence on ground that the Licence Area is designated as "special needs land" is required to compensate the relevant licence holder. If the parties fail to reach an agreement regarding the amount of compensation, such compensation amount shall be determined by an authorized independent body and any disputes relating to the compensation amount shall be decided by a court in Mongolia.

As advised by the Group's Mongolian legal advisers, none of the Licence Area covered by the Licences is currently designated as "special needs land". There is no assurance that any of such land will not be so designated by the relevant regulatory authorities in the future, but the Mongolian legal advisers confirm that they currently are not aware of any reasons that such designations are likely to be made.

Transfer of exploration licences

According to the Mineral Law, an exploration licence may be transferred indirectly by way of a merger or acquisition of the company holding such exploration licence pursuant to the Civil Code, Company Law, Partnership Laws and other relevant legislation of Mongolia. No direct sale or transfer of exploration licences is allowed.

Regulation on mining licence

According to the Mineral Law, holder of an exploration licence has an exclusive right to obtain a mining licence covering all or any portion of the Licence Area and only the holder of an exploration licence is entitled to apply for a mining licence in respect of the relevant Licence Area. If the holder of an exploration licence fails to submit an application for a mining licence before expiration of the exploration licence, MRAM may grant a mining licence in respect of the Licence Area to a third party through tender.

Holder of an exploration licence wishing to apply for a mining licence covering all or part of the Licence Area shall make an application to the GMCD together with (i) the relevant original exploration licence; (ii) a certified copy of the applicant's State Registration Certificate; (iii) a map showing the boundaries of the relevant Licence Area under the application and the name of the province and sub-province where the exploration area is located; (iv) documentary proof of payment of applicable fees; (v) documentary proof of compliance with environmental protection and reclamation requirements during the period of exploration; (vi) an environmental impact statement relating to the proposed mining activities; and (vii) "minutes" of the Minerals' Council (the governing authority that reviews the exploration work report and approves the quantity of mineral deposits in mines) setting out its view on the exploration results and approval on the mineral deposits quantity in the relevant mine.

Rights and obligations of holders of a mining licence

Holder of a mining licence has the rights to (i) access the area covered by the mining licence (the "Mining Area"), provided that if obtaining access to the Mining Area requires passing over lands owned or possess by others, to traverse such lands subject to terms and conditions negotiated with such other owners or possessors; (ii) conduct mining activities in the Mining Area; (iii) sell mineral products produced from its mining activities at international market prices on foreign markets; (iv) conduct further exploration for minerals within the Mining Area; (v) pledge all or part of the mining licence in accordance with the relevant legislation; and (vi) use land and water within the Mining Area in compliance with applicable laws.

Prior to commencement of any mining activities, the holder of mining licence must arrange with the Ministry of Mineral Resources and Energy for a commission appointed by it to conduct (i) a review and audit of all pre-mining requirements under the Mineral Law; (ii) a review of all relevant documentation for the proposed mining activities, including the mining licence, environmental protection plan and environmental impact assessment, any mineral sales agreement, and any land and water usage agreements; (iii) an on-site inspection of the mining site and mining facilities. After satisfactory completion of the aforesaid reviews, the commission will issue a document (signed by all its members) approving the commencement of mining operations by the holder of mining licence.

Holders of mining licences shall promptly pay the relevant licence fees and royalty fees as described below.

Licence fees

Pursuant to the Mineral Law, annual licence fees are principally payable for each mining licence based on the size of the Mining Area. As advised by the Mongolian legal advisers of the Group, so far as they are aware, there are no outstanding annual licence fees payable in respect of the Major Licences.

There is no minimum expenditure requirement with respect to mining licences.

Royalty fees

Pursuant to the Mineral Law, holder of a mining licence shall pay royalty fees to the budget of the central and local tax authorities in respect of all products extracted from the Mining Area that are sold, shipped for sale or used. Such royalty fees shall be calculated based on (i) the nature of the products and (ii) the relevant sales value, which shall be determined as follows:

- for exported products the sales value shall be the average monthly prices of the products, or similar products, based on a regularly published international public prices or on recognized principles of international trade;
- for products sold or used in domestic market, the sales value shall be based on the domestic market price for the particular or similar products;
- for products sold on international and domestic market, where it is impossible to determine the market price, the sales value is based on the revenue derived from the sale of the products as declared by the licence holder.

Validity period and renewal

After an application for a mining licence is approved, a mining licence shall be issued for a term of 30 years. Holder of a mining licence may apply for renewal of the mining licence for two additional successive periods of 20 years each. Thus the maximum period that a mining licence may be held is seventy (70) years from the initial date of issue. Upon expiration of the maximum period that a mining licence may be held, all rights under such mining licence will automatically be returned to the Government of Mongolia.

If the holder of a mining licence intends to renew and extend its mining licence, it shall submit a renewal application to GMCD within two (2) years before the expiration date of such mining licence together with (i) the original mining licence; (ii) receipts for payments of annual licence fees and service fees during the initial licence period; and (iii) approval of the renewed environmental protection and reclamation plan by the relevant authorities.

Revocation or termination of mining licence

Each mining licence is subject to revocation or termination by MRAM if (i) the licence fees are not paid within the specified period; (ii) requirements under the Mineral Law are not complied with; (iii) all or part of the Mining Area has been designated as "special needs land" and the holder of relevant mining licence has been fully compensated (For revocation of a mining licence on this ground, please refer to the paragraph headed "Revocation or Termination of Exploration Licence" under the "Regulation on Exploration Licence" section); or (iv) the State Central Administrative Agency in charge of the environmental protection and reclamation matters has decided, based on reports from the local administrative bodies, that the licence holder had failed to fulfill its environmental protection and reclamation duties.

Transfer of mining licences

According to the Mineral Law, a mining licence may be transferred indirectly by way of a merger or acquisition of the company holding such mining licence pursuant to the Civil Code, Company Law, Partnership Laws and other relevant legislation of Mongolia. No direct sale or transfer of mining licences is allowed.

Other relevant laws and regulations

Laws and regulations relating to foreign investment

The major laws regulating business organizations and activities in Mongolia are the 1991 Law on Business Entities, 1994 Civil Code, and 1999 Company Law of Mongolia (the "Company Law"). The Company Law regulates the establishment, registration and reorganization of a company, its management and organizational structure, the rights and obligations of its shareholders, and its control and liquidation. According to the Company Law and Law on State Registration of Legal Entities, each company in Mongolia shall be registered in the state registration office of legal entities of the Legal Entity Registration office ("LERO") of the State General Registration Authority.

In respect of specific laws and regulations on foreign investment, the Parliament of Mongolia has approved the first set of Foreign Investment Law in 1993, which was amended and supplemented in 2001 and 2002 respectively (the "Foreign Investment Law"). According to Foreign Investment Law, foreign investors shall have the right to invest in any sector and any region in Mongolia, except for certain sectors specifically prohibited by laws, to register companies in Mongolia, to conclude any stability or investment agreement with relevant governing authorities, to lease land in Mongolia, to repatriate investment returns and to enjoy legal protection and treatment no less favourable than those granted to Mongolian investors.

According to the Foreign Investment Law, the minimum capital requirement for foreign invested company, either wholly foreign-invested companies or joint ventures, is US$100,000. Where twenty-five percent (25%) or more of the paid-in-capital of a Mongolian company is contributed by foreign investors, such company shall undergo business registration with the Foreign Investment and Foreign Trade Agency ("FIFTA"). Upon completion of the business registration, FIFTA will issue a certificate to the registered foreign-invested business entity upon which such entity can commence business activities in Mongolia. Furthermore, to assume the status of a legal person in Mongolia, the foreign-invested business entity shall also be registered with LERO. As advised by the Mongolian legal advisers of the Group, each member of the Target Group which is incorporated in Mongolia has been duly registered and remains registered with LERO, and Camex LLC and Kores, being foreign invested companies, have been duly registered with FIFTA.

There is no restriction on foreign ownership of exploration licences and mining licences under the Law on Licensing of Mongolia, Foreign Investment Law and Mineral Law.

However, according to Article 6 of the Foreign Investment Law, foreign investment may be made by establishing wholly foreign-owned business entities or local branches or subsidiaries of foreign enterprises or establishing business entities jointly with Mongolian investors (i.e. in the form of joint venture). There is no requirement under the Company Law that a shareholder or director of a business entity in Mongolia must be a local Mongolian natural or legal person. Therefore, a foreign national, legal person or stateless person may also be a shareholder and a director of a company in Mongolia.

Laws and regulations relating to foreign exchange control

The Law on Currency Regulation of Mongolia (the "Currency Law"), which was adopted in 1999, regulates various currency transactions by business entities, organizations and citizens.

According to the Currency Law, all legal persons in Mongolia established in accordance with the laws of Mongolia and domiciled in Mongolia ("Mongolian Residents"), which received income in foreign currency shall sell or hold such foreign currency only through a commercial bank authorised by the MongolBank within 60 days of receipt of such income. Mongolian residents which have branches and representative offices in foreign countries, shall only buy, sell, lend and transfer foreign currency through the MongolBank or other commercial banks authorised by the MongolBank. Further, Mongolian residents who conduct work and services in foreign currency in the cash form shall sell or hold it only through a commercial bank authorised by the MongolBank except for such amounts needed for daily reserves in accordance with the procedure approved by the MongolBank.

Laws and regulations relating to environmental protection

The Environmental Protection Law of Mongolia (the "EP Law"), which was adopted in 1995, regulates the relationships among the state, its citizens, business entities and other organizations in order to guarantee the human right to live in a healthy and safe environment, an ecologically balanced social and economic development; the protection of the environment for present and future generations; the proper use of natural resources and the restoration of available resources.

According to the EP Law, certain limits are set against the quantity of natural resources permitted to be used and the amount of wastes and pollutants discharged from business activities. If such limits are exceeded, compensation must be paid by the entities in violation. Citizens, business entities and organizations shall be liable to compensate such damages caused to the environment and natural resources as a result of their activities. As advised by the Mongolian legal advisers of the Group, so far as they are aware, there has been no violation in respect of such limits and no compensation is required to be paid by any member of the Target Group which is incorporated in Mongolia.

According to the Mineral Law, holder of an exploration licence shall prepare and submit environmental protection plan after the first grant of exploration licence to the relevant authority and deposit funds in special bank accounts designated by the relevant authority to secure its performance of environmental protection related obligations. As advised by the Mongolian legal advisers of the Group, so far as they are aware, the Target Group has fully complied with these obligations in respect of all Other Licences. According to the Mineral Law, holder of mining licence shall prepare and submit environmental protection plan and environmental impact assessment report after the first grant of mining licence to the relevant authority and deposit funds in special bank accounts designated by the relevant authority to secure its performance of environmental protection related obligations. Failure to deposit such funds does not affect the validity of the relevant mining licence, but will entitle the government to take actions to recover the outstanding deposits or prohibit the holder of mining licence to continue with its mining activities. As advised by the Mongolian legal advisers of the Group, TNE, being holder of the Major Licences, has been in communication with the Ministry about the fact that there was no mining activity in the licensed areas in 2009, and the Ministry has agreed that the next deadline for submitting an environmental protection plan is 30 June 2010. The amount of the deposit for the environmental protection budget will be determined after the new plan is approved.

Furthermore, holder of an exploration licence or mining licence is required to restore the exploration or mining area. The proposed restoration work shall be included in the related environmental protection plans. If a licence holder fails to restore the exploration or mining area in accordance with the approved plan, the local authorities may conduct inspections and require the licence holder to take remedial actions. If the situation persists, the local authorities may report the case to the Ministry of Environment. In serious cases, the Ministry of Environment may refer the case to the MRAM to consider whether the licence should be revoked.

Subsequent environmental protection plans for exploration and mining licences shall be submitted annually to the relevant authority for inspection and approval.

Exploration and use of minerals are also governed by the Law on Prohibition to Explore and Utilize the Mineral Resources in Areas of Source of River, Protected Area of Water Resource and Forest (the "Mineral Protection Law"), which was adopted in 2009. Exploration and use of minerals at source of river, protected area of water resource and forest are prohibited under the Mineral Protection Law. Border points of area of river source, protected area of water resource and forest are determined by the Mongolian Government. The Mineral Protection Law also imposes obligations on holders of exploration and mining licences to reclaim the environment which may be affected by their exploration and mining activities. Entities which violate the Mineral Protection Law shall be subject to criminal liabilities and other penalties.

Laws and regulations relating to taxation

Business entities established under the laws of Mongolia and their subsidiaries and representative offices, foreign business entities which have a headquarter located in Mongolia and foreign business entities earning income or making profits in Mongolia and their representative office(s) in Mongolia are all subject to income taxation according to Corporate Income Tax Law of Mongolia (the "Income Tax Law"), which was adopted in 2006.

According to the Income Tax Law, taxable income includes all income from business activities and income from renting out or sale of properties. Tax rate to be charged against taxable income depends on the total amount of taxable income and nature and source of income.

Tax is also imposed against additional income derived from price rise of some products including gold and copper ore and concentrate. The taxable income shall be determined, as to gold product, by reference to the difference between gold price per ounce at London Metals Exchange and US$500, and as to copper ore and concentrate products, by reference to the difference between copper price per ton at London Metals Exchange and US$2600. A 68% tax shall be imposed on taxable income derived from price rise of gold and copper ore and concentrate.

Law and regulations relating to export requirements

Holders of mining licences have the right to export and sell mineral products produced from their mining activities and there is no requirement that any export licence must be obtained for such export and sale activities, subject to the compliance with certain procedural requirements.

RISKS FACTORS

Risks relating to the Acquisition

Uncertainty about the mineral resources of the Mines

It is anticipated that the estimated amount of Mineral Resources stated (or to be stated) in the technical reports as prepared by the technical adviser in the Mines would be based on a number of assumptions on principal factors and variables, which may prove to deviate from the actual state of the Mines, and which would be beyond the Group's control. Furthermore, the estimated amount of Mineral Resources may change significantly when new information becomes available or when new factor arises, and the assumptions on which the estimate was based may prove to be inaccurate. Consequently, the actual amount of Mineral Resources derived from the Mines may deviate materially from the amount as estimated by the technical adviser. Any material deviation may adversely affect the profitability of the Enlarged Group's mining operations.

Significant and continuous capital investment

The mining business requires significant and continuous capital investment, including capital expenditures required for the construction and/or purchase of mining facilities, equipment and processing plants. The capital and funding requirements for major mining exploration and production projects may exceed the original budgets. As a consequence of funding or other resources constraints, completion of such major mining exploration and production projects may suffer from delays, may not be completed as planned and may not achieve the intended economic results or commercial viability. Actual capital expenditures for the new business may also significantly exceed the Group's budgets because of various factors beyond the Group's control, including technical difficulties and manpower shortage. As such, the Group's financial condition may be affected and the intended economic benefits from the new mining business may not materialise as budgeted.

New business and lack of management expertise

Mining and exploration is a new business to the Group. The success of this new business is dependent on a number of factors, including the timely construction of the mining facilities and processing plants, commencement of production, the recruitment of competent professionals and experienced personnel, stringent controls over investment and production costs, and the constant supply of electricity and water to the Mines. The Group and the existing Directors do not have relevant experience in the new mining business, therefore the Acquisition will impose significant management and operational challenges to the Group. For the purposes of managing and developing the new mining business of the Group and in order to ensure a smooth operation, the Company intends to build up a professional management and technical team with expertise in the mining area as soon as possible to run and manage the new business. Since the Group does not have significant experience in the new business, it is not in a position to assure the timing and amount of return or benefits that may be generated from the new business. Should there be any delays and/or adverse incidents against any mining projects in which the Group attempts to develop or if such development does not progress as planned, the Group may not recover the funds and resources it has spent and the results of operation of the Enlarged Group will be affected.

Potential loss of key personnel and failure to recruit qualified mining expert

The recruitment and retention of key management and technical personnel is a leading factor to the successful development and effective operation of the mining business of the Group. However, the human resources market only offers a limited number of persons with the required professional skills and mining expertise. Furthermore, as a result of the continuous increase in the number of new mining projects in Mongolia, competition within the Mongolian mining industry for such skilled persons is intense. If the Group shall fail to recruit sufficient qualified professionals and skilled mining staff and to retain its key personnel as its mining business grows, the Group's mining business and results of operations may be materially and adversely affected.

Fluctuations in prices of coal, gold and copper

The profitability of the Enlarged Group's mining operations and earnings may be affected by fluctuations in the market prices of coal, gold and copper. These fluctuations may be influenced by numerous factors beyond the control of the Enlarged Group, including global production and supply of coal, gold and copper and the global economic conditions and industrial demands for coal, gold and copper. Any sustained adverse movements in prices of coal, gold and copper are expected to have a negative impact on the Enlarged Group's financial conditions and results of the operations of the Enlarged Group.

Risks relating to conducting the mining operation in Mongolia

Economic and political factors

Both domestic and international economic factors may have an influence on the value of the Mines. Such factors include but are not limited to changes in governmental policies, the liquidity of the global financial markets, world terrorism, natural disasters, interests and exchange rates changes, inflation, trade sanctions and changes in taxation laws. Camex LLC, Kores and TNE are established and will operate, under the laws of Mongolia. The Group is unable to forecast the impact of any changes in the Mongolian Laws over the lifetime of Camex LLC, Kores and TNE.

Policies, laws and regulations

The mining business is subject to extensive laws, regulations, governmental policies and controls, particularly those governing licensing, taxation and export restrictions. There can be no assurance that the relevant government will not change such laws and regulations or impose additional or more stringent laws or regulations. Any changes in such laws and regulations will impose significant impact on the business and tax planning and arrangements of the Target Group. Failure to comply with the relevant laws and regulations in the mine development and exploration projects may adversely affect the Group. Furthermore, any new laws and regulations, or any change in existing laws and regulations may constrain the Group's future business plans. Increase in tax rates and more stringent policies on import or export control may adversely affect the profitability of the Enlarged Group's mining operations.

Furthermore, according to the Mineral Law of Mongolia 2006, the Mongolian Government has a discretion to designate any mineral deposits as "deposits of strategic importance" if it considers that such mineral deposits may have a potential impact on national security, economic and/or social development of Mongolia, or that such mineral deposits are producing or are capable of producing revenues that equal to or are greater than 5% of the gross national product of a particular year. The Mongolian Government is entitled to participate on an equity basis with holders of exploration or mining licences for mines which have "deposits of strategic importance". If state-funds were used to initially identify or explore the deposit, the Mongolian Government may participate up to 50% of equity interest of the licence holders. If private funds only were used to identify or explore the deposit, the Mongolian Government may participate up to 34%. The details with respect to such participation of the Mongolian Government shall be negotiated and settled between the Mongolian Government and the relevant licence holders.

In addition, according to the Mineral Law of Mongolia 2006, a legal entity holding mining licences for mines which have "deposits of strategic importance" is required to list no less than 10% of its shares on the Mongolian Stock Exchange. There has been no attempt by the Mongolian Government to enforce this provision and it is not clear how this provision will be implemented in practice.

None of the Mineral Resources are currently designated as "deposits of strategic importance". However, there is no assurance that any of the Mineral Resources will not be so designated by the Mongolian Government in the future, in which event the operations and profitability of the Group are expected to be materially adversely affected.

Environmental protection policies

The mining and exploration business are subject to Mongolian environmental protection laws and regulations. If the Group fails to comply with existing or future environmental protection laws and regulations, the Group may be required to take remedial measures, which could have a material adverse effect on the business, operations, financial condition and results of operations of the Group.

Validity of the Licences

Despite the fact that the Target Group has obtained the Licences for exploration and/or mining activities in the Mines during the licensed period, the Licences are subject to renewal in the future and the Target Group may not be able to renew or extend its exploration and mining rights thereunder. New conditions and additional licensing fees may also be imposed upon renewal of the Licences. Furthermore, the Licences may be revoked or terminated in cases of failure by the Target Group to promptly pay the licence fees or comply with provisions under the Mineral Law of Mongolia and relevant environmental protection and rehabilitation requirements. In the event that the Target Group fails to maintain the Licences and renew the Licences upon expiration, or if there is any delay in the renewal application or process for the Licences, the operation and financial performance of the Group will be adversely affected.

Furthermore, according to the Mineral Law of Mongolia 2006, the regulatory authorities governing exploration licences and mining licences may also revoke such licences if the licensed area under the relevant licence is designated as “special needs land” on grounds such as the land is required for ensuring national defence and security, or that such land is required for building consular offices or for state development of science and technology, etc. The governing authorities revoking an exploration licence or mining licence are required to compensate the licence holder. None of the land covered by the Licences is currently designated as “special needs land”. However, there is no assurance that any of such land will not be so designated by the relevant regulatory authorities in the future, and in which event there is no assurance that adequate compensation will be received by the Target Group. If any of the land covered by the Licences is designated as “special needs land”, it is expected that the operations and profitability of the Group will be materially adversely affected.

Obtaining of mining licences

Mining activities in the Mines can only be commenced after the relevant exploration licences are converted into mining licences. Despite the fact that the Target Group has obtained exploration licences for its exploration activities in some of the Mines, there is no assurance that such exploration licences held by the Target Group will be able to be successfully converted into mining licences upon completion of its exploration activities. In the event that the Target Group fails to convert the exploration licences into mining licences, or if there is any problem or delay in the application or conversion process for the mining licences, the mining operations and financial performance of the Group will be adversely affected.

Dependence on external companies

According to the Group's preliminary business development plan, it will outsource its mining operations to mining contractors and logistics companies which have the relevant experience in the mining area in order to reduce the initial capital expenditure and speed up production. However, there can be no assurance on the performance of such mining contractors and logistics companies. Should there be any delays in completing the mining operations or any breach of laws or regulations by such mining contractors and logistic companies, the results of mining operations of the Group will be adversely affected.

Work safety and operational risks

Occurrence of accidents at the Mines may disrupt the mining operations of the Enlarged Group and may result in a mandatory suspension of operation, financial losses, compensatory claims, fines, penalties or damage to the reputation of the Enlarged Group. Furthermore, the mining operations of the Enlarged Group will face a number of other operational risks, including but not limited to risks relating to geological structure of the Mines and geological disasters that occur during the mining process; and catastrophic events such as fires, earthquakes, floods or other natural disasters.

THE PLACING

The Placing Agreement

Date: 24 December 2009

Issuer: the Company

Placing Agent: Yuanta Securities (Hong Kong) Company Limited

The Placing Agent has conditionally agreed, on a best effort basis, to place not less than 3,800,000,000 and not more than 4,000,000,000 Placing Shares at the Placing Price and will receive a placing commission of 1% on the gross proceeds of the actual number of Placing Shares being successfully placed by it to independent placees under the Placing Agreement. The placing commission was arrived at after arm's length negotiations between the Company and the Placing Agent under normal commercial terms. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, the Placing Agent and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons.

Placees

The Placing Shares will be placed to not less than six Placees. The Placing Agent shall use all reasonable endeavours to ensure (i) the Placees shall be parties independent of the Company and its connected persons, in particular, independent of and not connected with any of the directors or proposed directors, chief executive or proposed chief executive and substantial shareholders or proposed substantial shareholders of the Company or any of its subsidiaries or any of their respective associates; (ii) each of the Placees and any parties acting in concert and/or presumed to be acting in concert with it (within the meaning of the Hong Kong Code on Takeovers and Mergers) do not hold 30% or more of the voting rights of the Company after the Placing; and (iii) each of the Placees will be regarded as a public Shareholder (within the meanings under the Listing Rules) holding less than 10% of the issued share capital of the Company after the Placing.

Placing Shares

The minimum number of 3,800,000,000 Placing Shares represents (i) approximately 459.8% of the existing issued share capital of the Company of 826,480,000 Shares in issue as at the Latest Practicable Date; (ii) approximately 82.1% of the Company's issued share capital of 4,626,480,000 Shares as enlarged by the Placing (assuming 3,800 million Placing Shares were placed out); and (iii) approximately 57.6% of the Company's issued share capital of 6,596,480,000 Shares as enlarged by the Placing (assuming 3,800 million Placing Shares were placed out) and the issue of 1,970 million Consideration Shares immediately after completion of the Placing.

The maximum of 4,000,000,000 Placing Shares represent (i) approximately 484.0% of the existing issued share capital of the Company of 826,480,000 Shares in issue as at the Latest Practicable Date; (ii) approximately 82.9% of the Company's issued share capital of 4,826,480,000 Shares as enlarged by the Placing (assuming 4,000 million Placing Shares were placed out); and (iii) approximately 58.9% of the Company's issued share capital of 6,796,480,000 Shares as enlarged by the Placing (assuming 4,000 million Placing Shares were placed out) and the issue of 1,970 million Consideration Shares immediately after completion of the Placing.

Application for listing

An application has been made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Placing Shares.

Ranking of the Placing Shares

The Placing Shares will rank, upon issue, pari passu in all respects with the Shares in issue on the date of allotment and issue of the Placing Shares.

Placing Price

The Placing Price of HK$0.12 represents:

(i) a discount of approximately 81.25% to the closing price of the Shares of HK$0.64 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 83.56% to the closing price of the Shares of HK$0.73 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 75.51% to the average of the closing prices of the Shares of approximately HK$0.49 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 71.43% to the average of the closing prices of the Shares of approximately HK$0.42 per Share as quoted on the Stock Exchange for the 60 consecutive trading days up to and including the Last Trading Day;

(v) a discount of approximately 64.71% to the closing price of the Shares of HK$0.34 per Share as quoted on the Stock Exchange on the Pre-MOU Day; and

(vi) a discount of approximately 55.56% to the average of the closing prices of the Shares of approximately HK$0.27 per Share as quoted on the Stock Exchange for the last one year prior to and including the Pre-MOU Day.

The Placing Price was negotiated on an arm's length basis between the Company and the Placing Agent with reference to the market prices of the Shares as described in the paragraph headed "Issue Price and Initial Conversion Price" above and the substantial number of Placing Shares to be issued under the Placing (which represents approximately 484.0% of the existing issued share capital of the Company, based on the maximum number of 4,000,000,000 Placing Shares). Moreover, in view of the recent volatile market conditions and following the discussion with the Placing Agent, the Directors have agreed to set the Placing Price at a level that would attract independent individual, corporate and/or institutional investors to participate in the Placing which is on a best effort basis.

As stated under the paragraph headed "Issue Price and Initial Conversion Price", the Share price has recently surged from Pre-MOU Reference Price of HK$0.34 per Share to HK$0.73 per Share (being the Last Trading Day). In order to eliminate the effects of any short term fluctuations in share prices on the trading pattern of the Shares, when determining the Placing Price, the Company and the Placing Agent have principally taken into account Share price performance of the Company for the period prior to the Pre-MOU Day and the following factors: (i) the market risks assumed by the Placing Agent and the placees thereunder on account of the fact that the Placing is subject to and cannot be completed until approval by the independent Shareholders at the EGM, which is expected to take place over three months from the date of the Placing Agreement; (ii) the average of the closing prices of approximately HK$0.34 per Share as quoted on the Stock Exchange for the last thirty trading days immediately prior to and including the Pre-MOU Day; and (iii) the average of the closing prices of approximately HK$0.27 per Share for the last one year up to and including the Pre-MOU Day.

In order to pursue the Acquisition which the Directors consider represents an opportune investment for the Group to participate in the mining industry in Mongolia for its long term prospects (details of the reasons for the Acquisition are set out under the paragraph headed "Reasons for the Acquisition"), the Company is required to raise sufficient funds for the payment of HK$200 million as part of the Consideration and prepare for the initial general working capital for the mining business of the Group upon Completion. The Directors consider that the Placing represents an opportunity to raise the required capital for the Company to proceed with the Acquisition.

Conditions of the Placing

Completion of the Placing is conditional upon:

(a) there is not, at any time prior to Placing Completion, (i) any breach of, or any event rendering untrue, inaccurate or misleading in any material respect, any of the representations, warranties or undertakings made by the Company or (ii) any breach of, or failure to perform, any of the other obligations of the Company required to be performed at or before Placing Completion;

(b) there is not, at any time prior to Placing Completion, (i) any breach of, or any event rendering untrue, inaccurate or misleading in any material respect, any of the representations, warranties or undertakings made by the Placing Agent or (ii) any breach of, or failure to perform, any of the other obligations of the Placing Agent required to be performed at or before Placing Completion;

(c) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in the Placing Shares (either unconditionally or subject to conditions which are acceptable to the Company and the Placing Agent);

(d) the passing of resolution(s) by the Shareholders to approve the allotment, issue and dealing with the Placing Shares by an extraordinary general meeting to be held by the Company;

(e) the approval of Shareholders at a duly convened Shareholders' meeting of the Company approving an increase in authorised share capital of the Company in order to cater for its issue of the Placing Shares under the Placing Agreement;

(f) the Acquisition Agreement becoming unconditional in all respects (other than the condition in respect of the Purchaser and/or the Company having successfully raised from the equity market no less than HK$400 million but not more than HK$480 million by way of placement of new Shares in cash to finance the cash portion of the consideration under the Acquisition Agreement);

(g) receipt by the Company of evidence that the Placing Agent successfully procure subscribers to subscribe for not less than 3,800,000,000 Placing Shares at the Placing Price; and

(h) the Placing Agent and the Company agreeing on the escrow arrangement as contemplated under the Placing Agreement (or an appropriate alternative settlement arrangement) before Completion.

The Placing Agent may, at its sole discretion, waive any of the conditions (a) and (h) set out above and the Company may, at its sole discretion, waive any of the conditions (b) and (g) set out above. As at the Latest Practicable Date, condition (h) has been fulfilled. If the above conditions have not been fulfilled, or as the case may be, waived on or before 30 June 2010, the Placing Agreement may be terminated by either party and neither party shall have any claim whatsoever against the other party in connection therewith, save and except for any antecedent breach.

Mandate to issue the Placing Shares

The Placing Shares to be issued under the Placing Agreement will be issued pursuant to a specific mandate to be obtained at the EGM.

Completion of the Placing

Completion of the Placing, in any event, will take place on the second Business Day after the fulfillment of the conditions as set out in the Placing Agreement or such later date to be agreed between the Company and the Placing Agent.

According to the terms of the Placing Agreement, the Placing Agent shall, at or prior to 4:00 p.m. on the Placing Completion Date, make or procure the making of payments in cleared funds of the aggregate placing proceeds of the Placing Shares (less the relevant placing agent's fee and expenses) to a bank account (the "Escrow Account") as notified by the Escrow Agent. Under the Placing Agreement, the Company and the Placing Agent have undertaken to finalise the appointment of the Escrow Agent and all arrangement relating to, inter alia, such appointment and the management and control of the Escrow Account and procure the entry into an escrow agreement among the Escrow Agent, the Company and the Placing Agent. As at the Latest Practicable Date, the Escrow Agreement has been entered into among the Escrow Agent, the Company and the Placing Agent. Pursuant to the Placing Agreement, the Company has agreed that the placing proceeds will only be released from the Escrow Account to the Company (or such other party as the Company may direct) on the day of completion of the Acquisition and undertaken that the placing proceeds will be used by the Group solely for the purposes of paying part of the consideration for the Acquisition, operation of certain mining sites in Mongolia as referred to in the Acquisition Agreement and general working capital.

Completion of the Placing is subject to the satisfaction of the condition(s) precedent in the Placing Agreement. As the Placing may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

Lock-up undertaking from the Company

Pursuant to the Placing Agreement, the Company has undertaken to the Placing Agent that, from the date of the Placing Agreement and for a period of three months after the date of the Placing Agreement, it will not issue, offer or grant any option to purchase any Shares (or any securities convertible into or exchangeable for Shares) or publicly announce any intention to issue, offer, lend, sell, contract to sell, pledge, or grant any option to purchase or otherwise dispose of, any Shares (or any securities convertible into or exchangeable for or which carry rights to subscribe or purchase Shares) or enter into any swap or similar agreement described above or deposit any Shares (or any securities convertible into or exchangeable for Shares) in any depositary receipt facility, without the prior written consent of the Placing Agent (such consent not to be unreasonably withheld), other than (i) the placing of the Placing Shares pursuant to the Placing Agreement; (ii) Shares to be issued upon exercise of warrants (if any) to purchase or subscribe Shares, or upon conversion of the convertible bonds and other securities convertible into Shares, in each case, outstanding on the date of the Placing Agreement; (iii) Shares (or any securities convertible into or exchangeable for or which carry rights to subscribe or purchase Shares) issued, offered, allotted, appropriated, modified or granted pursuant to any share option scheme or arrangement; (iv) Shares to be issued and allotted for consideration other than cash in connection with an acquisition of a company or a business by the Group; and (v) Shares and instruments convertible into Shares (including Shares to be converted) which will be issued under the Acquisition Agreement.

Reasons for the Placing and use of proceeds

The gross proceeds from the Placing will range from approximately HK$456 million to approximately HK$480 million. The net proceeds from the Placing is estimated to be in the range from approximately HK$450 million to approximately HK$474 million (depending on the actual number of Placing Shares), which will be used as to HK$200 million as part of the Consideration and the remaining balances to operate certain mining sites in Mongolia as referred to in the Acquisition Agreement and as general working capital for the mining business of the Enlarged Group. The net price to be raised per Share upon completion of the Placing will be approximately HK$0.1184. Please refer to the sub-paragraph headed "TNE Mine" under paragraph headed "Proposed business development plan on the Target Group" in the section headed "Information on the Target Group" above for further details on the application of the net proceeds from the Placing. The Directors consider that the Placing represents an opportunity to raise the required capital for the Company to proceed with the Acquisition. Accordingly, the Directors consider the Placing Agreement (including the Placing Price) is in the interest of the Company and Shareholders as a whole.

Fund raising activities in the past twelve months of the Company

The Company has not conducted any fund raising exercises in the past 12 months immediately preceding the Latest Practicable Date.

INCREASE IN AUTHORISED SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorised share capital of the Company is HK$100,000,000 divided into 2,000,000,000 Shares, of which 826,480,000 Shares have been issued. The Board proposes to increase the Company's authorised share capital from HK$100,000,000 divided into 2,000,000,000 Shares to HK$2,500,000,000 divided into 50,000,000,000 Shares by the creation of an additional 48,000,000,000 new Shares. Such new Shares, upon issued and fully paid, shall rank pari passu in all respects with the Shares. The proposed increase in authorised share capital of the Company by creating additional 48,000,000,000 Shares is determined by taking into account the allotment and issue of the Placing Shares pursuant to the Placing Agreement, the Consideration Shares and the Conversion Shares pursuant to the Acquisition Agreement, as well as the Company's need for flexibility to issue new Shares for future investments and developments.

The proposed increase in authorised share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM and is not conditional upon Completion or Shareholders' approval of the Acquisition being obtained. The Board is of the view that the proposed increase in authorised share capital of the Company will provide flexibility to the Company in determining its future business plan, and is therefore in the interest of the Shareholders. No Shareholder is required to abstain from voting on the resolution to be proposed at the EGM regarding the proposed increase in authorised share capital of the Company.

LISTING RULES IMPLICATION

The Acquisition and the transactions contemplated under the Acquisition Agreement constitute a very substantial acquisition for the Company pursuant to Rule 14.06(5) of the Listing Rules and a connected transaction of the Company pursuant to Rule 14A.13(1)(b)(i) of the Listing Rules by reason of the proposed appointment of up to four persons to be nominated by the Vendors as Directors with effect from Completion. The Acquisition and the transactions contemplated under the Acquisition Agreement are therefore subject to the approval by the Independent Shareholders at the EGM by way of poll. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, Mr. Wong, one of the beneficial owners of the Vendors, was interested in 1,400,000 Shares, representing approximately 0.17% of the total issued share capital of the Company as at the date of the Acquisition Agreement and as at the Latest Practicable Date. Save as disclosed above, each of the Vendors and their respective ultimate beneficial owners and their respective associates did not hold any Shares, options or securities convertible into Shares as at the Latest Practicable Date. The Vendors, Mr. Wong and their respective associates are required to abstain from voting on the relevant resolution to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

Given (i) the Placing is conditional upon, among other things, the relevant resolution to approve the Acquisition being passed at the EGM; and (ii) the Vendors, Mr. Wong and their respective associates are required to abstain from voting on the relevant resolution to approve the Acquisition, the Vendors, Mr. Wong and their respective associates will abstain from voting on the relevant resolution to approve the Placing at the EGM. Accordingly, the Placing is subject to the approval by the Independent Shareholders at the EGM by way of poll.

EGM

The EGM will be held at Unit 2402, 24/F., Admiralty Centre, Office Tower I, 18 Harcourt Road, Hong Kong on Friday, 28 May 2010 at 10:00 a.m. to consider and, if thought fit, approve, the necessary ordinary resolutions regarding the Acquisition Agreement and the transactions contemplated thereunder, the Placing and the increase in authorised share capital of the Company.

A notice convening the EGM is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible, but in any event not less than 48 hours before the time appointed for holding such meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be) should you so wish.

RECOMMENDATION

The Acquisition

The Directors believe that the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole and therefore recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Acquisition.

You are advised to read carefully the letter from the Independent Board Committee on page 76 of this circular. The Independent Board Committee, having taken into account the advice of Shenyin Wanguo, the text of which is set out on pages 77 to 105 of this circular, considers that the terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Acquisition and the transactions contemplated thereunder.

The Placing

Based on the reasons for the Placing set out in the paragraph headed "Reasons for the Placing and use of proceeds" above, the Board considers that the terms of the Placing Agreement are fair and reasonable so far as the Shareholders are concerned and the Placing is in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Placing.

The proposed increase in authorised share capital

Based on the reasons for the increase in authorised share capital set out in the paragraph headed "Increase in authorised share capital of the Company" above, the Board considers that the proposed increase in authorised share capital is in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the increase in authorised share capital of the Company.

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
YUEN Wai Keung
Deputy Chairman and Chief Executive Officer

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Acquisition:

明興水務控股有限公司

MING HING WATERWORKS HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 402)

12 May 2010

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular of the Company dated 12 May 2010 (the "**Circular**"), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as the Independent Board Committee to consider the terms of the Acquisition Agreement and to advise you as to whether, in our opinion, such terms are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the Acquisition is in the interests of the Company and the Shareholders as a whole.

Shenyin Wanguo has been appointed as the independent financial adviser to advise us and you in this regard. Details of their independent advice, together with the principal factors and reasons they have taken into consideration, are set out on pages 77 to 105 of the Circular.

Having considered the terms of the Acquisition Agreement and the independent advice of Shenyin Wanguo in relation thereto, we are of the opinion that the terms of the Acquisition Agreement are fair and reasonable in so far as the Company and the Independent Shareholders are concerned, and the Acquisition is in the interests of the Company and the Shareholders as a whole. We therefore recommend that you vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee
Professor LEUNG Yee Tak **Mr. LIAO Cheung Tin, Stephen**
Mr. WONG Lap Shek, Eddie
Independent non-executive Directors

Set out below is the text of the letter from Shenyin Wanguo setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition.

Shenyin Wanguo Capital (H.K.) Limited
28th Floor, Citibank Tower
Citibank Plaza
3 Garden Road
Hong Kong

12 May 2010

To the Independent Board Committee and Independent Shareholders of
Ming Hing Waterworks Holdings Limited

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN WELL DELIGHT HOLDINGS LIMITED INCLUDING THE ISSUE OF CONSIDERATION SHARES, CONVERTIBLE NOTE AND PROMISSORY NOTE

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition. Details of the Acquisition are set out in the circular of the Company to its shareholders dated 12 May 2010 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meaning as those defined in the Circular unless the context otherwise requires.

The Acquisition and the transactions contemplated under the Acquisition Agreement constitute a very substantial acquisition for the Company pursuant to Rule 14.06(5) of the Listing Rules and a connected transaction of the Company pursuant to Rule 14A.13(1)(b)(i) of the Listing Rules by reason of the proposed appointment of up to four persons to be nominated by the Vendors as Directors with effect from Completion. The Acquisition and the transactions contemplated under the Acquisition Agreement are therefore subject to the approval by the Independent Shareholders at the EGM by way of poll. The Vendors, Mr. Wong and their respective associates are required to abstain from voting on the relevant resolution to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Professor Leung Yee Tak, Mr. Liao Cheung Tin, Stephen and Mr. Wong Lap Shek, Eddie, has been established for the purpose of advising and giving recommendation to the Independent Shareholders in relation to the Acquisition. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, statements, opinions and representations contained in the Circular and the information and statements supplied, and opinions and representations expressed by the Company and the Directors. We have assumed that all such information, statements, opinions and representations contained or referred to in the Circular or otherwise supplied or expressed to us by the Directors were reasonably made after due and careful inquiry and were true, accurate and complete at the time they were made and continue to be so at the date of the Circular. As set out in Appendix VIII to the Circular, the Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have reviewed sufficient information to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our opinion. We are not aware of, and have no reason to suspect that, any material fact or information has been omitted or withheld or to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the Company and the Directors, nor have we conducted any independent investigation into the business or affairs or future prospects of the Group or the Target Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion with regard to the Acquisition, we have taken the following principal factors and reasons into consideration:

1. Background

On 5 December 2009, the Purchaser and the Vendors entered into the Acquisition Agreement pursuant to which the Vendors conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Sale Shares at the Consideration of HK$1,937.5 million. The Sale Shares represent the entire issued share capital in the Target Company. As at the Latest Practicable Date, the Target Group held the Major Licences and the Other Licences for the TNE Mine and the Other Mines located in Mongolia with coal, gold and copper deposits. The Consideration was determined after arm’s length negotiations between the Company and the Vendors by reference to, among other things, the estimated value of the Major Licenses. Moreover, pursuant to the Acquisition Agreement, the Purchaser shall procure the Company to issue the Compensation Note (subject to a maximum principal amount of HK$3,100 million) to Best

State (or its nominee) in case the value of Camex LLC Group (excluding TNE) or the value of the Other Licences as shown in the Second Valuation Report, which shall be delivered within eight months after the Completion Date, is not less than HK$1,550 million. Accordingly, the maximum amount to be paid by the Purchaser, being the aggregate of the Consideration and the maximum of the Compensation, under the Acquisition Agreement amounted to HK$5,037.5 million.

Details of the Acquisition Agreement are set out in the letter from the Board contained in the Circular ("Letter from the Board").

2. Information on the Target Company

As stated in the Letter from the Board, the Target Company, incorporated in BVI with limited liability in November 2009, is an investment holding company with authorised share capital of 50,000 shares at a par value of US$1.00 each and issued share capital of US$1,000 (equivalent to approximately HK$7,750) and owned as to 15% by Sino Access and 85% by Best State. The Target Company has not commenced any business operation since its incorporation and had no major assets or investment other than its holding of Camex Pte as at the Latest Practicable Date.

Camex Pte, incorporated in Singapore with limited liability in February 2007, is wholly-owned by the Target Company with fully paid up registered capital of US$10,000,000 (equivalent to approximately HK$77,500,000). Camex Pte is an investment holding company and owns 100% equity interest in each of Grand Title and Camex LLC. Set out below is certain key audited consolidated financial information of Camex Pte for the two years ended 31 December 2009:

	For the year ended 31 December 2009 *(Audited)*		**For the year ended 31 December 2008** *(Audited)*	
	(Approximately US$'000)	*(Equivalent to approximately HK$'000)*	*(Approximately US$'000)*	*(Equivalent to approximately HK$'000)*
Revenue	–	–	–	–
Operating loss	(158,076)	(1,225,089)	(1,147)	(8,889)
Loss attributable to owners of Camex Pte	(158,069)	(1,225,035)	(1,129)	(8,750)
Net assets attributable to owners of Camex Pte	138,401	1,072,608	126,983	984,118

We note that the loss incurred by Camex Pte Group for the year ended 31 December 2009 of US$158,076,000 was mainly attributable to the share-based payment of US$156,800,000 included in administrative expenses. According to the accountants' report on Camex Pte contained in Appendix II to the Circular (the "Camex Pte Accountants' Report"), pursuant to a restructuring within the Target Group (the "Restructuring") which took place on 28 November 2009, an independent third party (the "Party") obtained 49% effective interest in the share capital of the Target Company in consideration for the transfer of the entire issued share capital of Grand Title by the Party to Camex Pte (the "Arrangement"). The Arrangement is accounted for as a share-based payment. On the date of the Restructuring, Grand Title had net liabilities of less than US$1,000. Grand Title has not carried out any business activities except for the signing of the Grand Title MOU. In the opinion of the directors of Camex Pte, the proposal under the Grand Title MOU, if duly executed, would bring in significant economic benefits to Camex Pte Group. As disclosed in the Camex Pte Accountants' Report, the Grand Title MOU does not meet the definition of an asset under Hong Kong Financial Reporting Standards as the expected future economic benefits arising therefrom are not yet controlled by Grand Title. The difference between the fair value of the equity interests granted of US$156,800,000 and the fair value of the identifiable goods and services received of less than US$1,000 in deficit is recognised as unidentifiable goods or services received and is charged to the consolidated statements of comprehensive income for the year ended 31 December 2009 under administrative expenses. The corresponding amount is credited to equity as a capital contribution as the party which granted the equity interests was the immediate holding company of Camex Pte. For further details, please refer to the accountants' report on Camex Pte contained in Appendix II to the Circular. We note that the above share-based payment is a non-cash expense and hence will not affect the cash flows of Camex Pte Group.

Grand Title, incorporated in BVI with limited liability in November 2008, is an investment holding company with authorised share capital of 50,000 shares at a par value of US$1.00 each and issued share capital of US$1.00 (equivalent to approximately HK$7.75) and wholly-owned by Camex Pte. Apart from the Grand Title MOU, Grand Title had no major assets or investment as at the Latest Practicable Date.

Camex LLC was incorporated in Mongolia with limited liability in August 2006 with registered capital of MNT12 million (equivalent to approximately HK$64,800). Camex LLC is principally engaged in the business of mineral resources exploration. Apart from holding the equity interests in TNE, Camex GT and Kores, Camex LLC currently holds five of the Other Licences, including three coal exploration licences and two gold and copper exploration licences. Set out below is certain key audited consolidated financial information of Camex LLC for the two years ended 31 December 2009:

	For the year ended 31 December 2009 *(Audited)*		**For the year ended 31 December 2008** *(Audited)*	
	(Approximately MNT'000)	*(Equivalent to approximately HK$'000)*	*(Approximately MNT'000)*	*(Equivalent to approximately HK$'000)*
Revenue	–	–	–	–
Operating loss	(1,499,929)	(8,100)	(1,030,840)	(5,567)
Loss attributable to owners of Camex LLC	(1,490,233)	(8,047)	(1,009,813)	(5,453)
Net assets attributable to owners of Camex LLC	187,616,423	1,013,129	150,946,804	815,113

Independent Shareholders should note that, as set out in the respective accountants' reports on the Target Company, Camex Pte and Camex LLC contained in Appendix II to the Circular, the reporting accountants, without qualifying their opinion, have issued an emphasis of matter on material uncertainty regarding the going concern assumption since (i) the Target Group had net current liabilities of US$271,000 (equivalent to approximately HK$2.1 million) as at 31 December 2009; (ii) Camex Pte Group had net current liabilities of US$270,000 (equivalent to approximately HK$2.1 million) as at 31 December 2009; and (iii) Camex LLC had capital deficiency of MNT1,027,212,000 (equivalent to approximately HK$5.5 million), MNT1,916,568,000 (equivalent to approximately HK$10.3 million) and MNT3,342,949,000 (equivalent to approximately HK$18.1 million) as at 31 December 2007, 2008 and 2009 respectively and Camex LLC Group had net current liabilities of MNT4,974,328,000 (equivalent to approximately HK$26.9 million), MNT9,007,855,000 (equivalent to approximately HK$48.6 million) and MNT11,373,275,000 (equivalent to approximately HK$61.4 million) as at 31 December 2007, 2008 and 2009 respectively. These conditions, along with other matters as disclosed in note 2 to the financial information of the Target Group, Camex Pte Group and Camex LLC Group as set out in the respective accountants' reports on the Target Company, Camex Pte and Camex LLC ("Note 2"), indicate the existence of a material uncertainty which may cast doubt about the ability of the Target Group, Camex Pte Group, Camex LLC and Camex LLC Group to continue as a going concern. We note from Note 2 that each of the Target Group, Camex Pte Group and Camex LLC Group has not yet commenced any revenue-generating activities and had certain capital commitments as at 31 December 2009. However, as further disclosed in Note 2, the financial information of the Target Group, Camex Pte Group and Camex LLC Group has been prepared on a going concern basis since certain beneficial owners of the Target Company have agreed to provide adequate funds to enable the Target Group, Camex Pte Group, Camex LLC and Camex LLC Group to meet in full their financial obligations as they fall due. In addition, the Company has agreed to provide financial support to the Target Group, Camex Pte Group, Camex LLC and Camex LLC Group upon Completion to enable the Target Group, Camex Pte Group, Camex LLC and Camex LLC Group to meet in full their financial obligations as they fall due. For further details, please refer to the accountants' reports on the Target Company, Camex Pte and Camex LLC contained in Appendix II to the Circular. We understand from Grant Thornton, the reporting accountants of the Target Company, Camex Pte and Camex LLC, that they have received the respective undertakings from Sino Access, Best State and the Company (the "Relevant Parties") in respect of the provision of financial support to the Target Group, Camex Pte Group, Camex LLC and Camex LLC Group as mentioned above. Grant Thornton has also advised that the financial information provided by the Relevant Parties indicates that the Relevant Parties are in a position to provide such undertakings.

TNE, incorporated in Mongolia with limited liability in February 2005 with registered capital of MNT10 million (equivalent to approximately HK$54,000), is wholly-owned by Camex LLC. TNE is principally engaged in mining business. TNE currently holds the Major Licences, being the four mining licences in the TNE Mine, and it also owns the Processing Plant. The basic structure of the Processing Plant was completed in 2008 and trial production was launched in the same year. Since October 2009 and as at the Latest Practicable Date, the Processing Plant has not carried out any commercial operation.

Camex GT, incorporated in Mongolia with limited liability in January 2007 with registered capital of MNT1,000,000 (equivalent to approximately HK$5,400), is wholly-owned by Camex LLC. As at the Latest Practicable Date, Camex GT is dormant and has not carried out any operation since its establishment.

Kores, incorporated in Mongolia with limited liability in November 2006 with registered capital of MNT11.64 million (equivalent to approximately HK$62,856), is owned as to 70% by Camex LLC and 30% by an Independent Third Party. Kores is principally engaged in mineral resources exploration. Kores currently holds two of the Other Licences, being two gold and copper exploration licences.

Further information of the Target Group, the Mines, the shareholding structure and financial information of the Target Group is set out in the section headed "Information on the Target Group" in the Letter from the Board. Independent Shareholders are advised to read the relevant section carefully.

3. Reasons for the Acquisition

3.1 Financial performance of the Group

As at the Latest Practicable Date, the Group is principally engaged in the provision of maintenance and construction works on civil engineering contracts in respect of waterworks engineering, road works and drainage and slope upgrading for the public sector in Hong Kong (the "Waterworks Engineering Business").

We note that the financial performance of the Group for the year ended 31 March 2009 and the six months ended 30 September 2009, in particular its profitability, has been deteriorating. Set out below is a summary of the financial results of the Group for the two years ended 31 March 2009 and for the six months ended 30 September 2008 and the six months ended 30 September 2009, as extracted from the relevant annual report and interim report of the Company.

	For the year ended 31 March		**For the six months ended 30 September**	
	2008	**2009**	**2008**	**2009**
	(Audited)	*(Audited)*	*(Unaudited)*	*(Unaudited)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	648,475	660,870	387,355	278,478
Gross profit	83,811	69,441	36,919	12,229
Operating profit/(loss)	37,137	14,763	8,725	(7,829)
Profit/(Loss) attributable to equity holders of the Company	24,885	6,431	4,078	(8,639)

For the year ended 31 March 2009, the Group recorded a significant decline in profit of approximately 74.2% as compared to the previous year despite that fact that its turnover grew by approximately 1.9%. The decrease was primarily attributable to the drop in gross profit of the Group mainly as a result of increases in raw material and labour costs.

The Group recorded a turnover of approximately HK$278.5 million for the six months ended 30 September 2009 which represented a decrease of approximately 28.1% as compared with that in the corresponding period of the previous year. Such decrease was mainly attributable to the drop in revenue from maintenance contracts for waterworks. The Group's gross profit for the six months ended 30 September 2009 was approximately HK$12.2 million, representing a gross profit margin of approximately 4.4% against the gross margin of approximately 9.5% for the six months ended 30 September 2008. The decrease in the gross profit margin was mainly due to continuous rising material and labour costs. For the six months ended 30 September 2009, the Group recorded a loss attributable to equity holders of the Company of approximately HK$8.6 million against a profit attributable to equity holders of the Company of approximately HK$4.1 million for the six months ended 30 September 2008. As stated in the interim report of the Company for the six months ended 30 September 2009, the loss was mainly attributed to the provision for impairment of prepaid investments in Guangdong Province, the PRC of approximately HK$3.7 million and decrease in profit margin.

As stated in the Company's interim report for the six months ended 30 September 2009, the Group is exploring other new business opportunities with the aim of broadening its income base.

3.2 Business diversification

We note from the Letter from the Board that in view of the deteriorating financial performance of the Waterworks Engineering Business of the Group, the Directors consider that it is beneficial for the Group to seek suitable investment opportunities from time to time to diversify its existing business portfolio and to broaden its source of income. To this end, the Company has identified the Target Group as an appropriate acquisition target to the Group and is of the view that the Acquisition would allow the Group to diversify into a new line of business with significant growth potential. As stated in the Letter from the Board, given Mongolia is well known for its possession of abundant natural resources, it is expected that the Acquisition will provide a great potential for the Group's business growth and enable it to step into the natural resources business of Mongolia. Moreover, in light of the expected continuous growth in demand for coal in the world, the Directors consider that the Group may broaden its source of income by diversifying its business to include coal exploration, mining and trading through the Acquisition. In consideration of the aforesaid, despite the fact that coal prices have decreased in the last few quarters, the Company considers that the mining industry relating to coal resources has considerable development potential given that there is still substantive demand for coal in the world, particularly in the PRC. In light of the positive outlook of the coal industry as stated below, we concur with the Directors that the Acquisition would provide an opportunity for the Group to broaden its source of income.

3.3 Coal industry

According to the International Energy Outlook 2009 (the "Outlook") published by Energy Information Administration, Office of Integrated Analysis and Forecasting of the Department of Energy of the United States of America ("U.S."), world coal consumption is projected to increase by 49% from 2006 to 2030 and international coal trade is projected to grow by 40% from 19.7 quadrillion British thermal units ("Btu") in 2006 to 27.6 quadrillion Btu in 2030. According to the Outlook, countries in Asia which are not members of the Organization for Economic Cooperation and Development ("non-OECD Asia") (which include the PRC and Mongolia) account for 90% of the projected increase in world coal consumption from 2006 to 2030. Strong economic growth is expected for non-OECD Asia, averaging 5.7% per year from 2006 to 2030. Much of the increase in demand for energy in non-OECD Asia, particularly in the electric power and industrial sectors, is expected to be met by coal.

According to the Outlook, coal use in PRC's electricity sector is projected to increase from 24.9 quadrillion Btu in 2006 to 57.3 quadrillion Btu in 2030, at an average rate of 3.5% per year. At the beginning of 2006, the PRC had an estimated 350 gigawatts of coal-fired capacity in operation. To meet the demand for electricity that is expected to accompany its rapid economic growth, an additional 600 gigawatts of coal-fired capacity (net of retirements) is projected to be brought on line in the PRC by 2030. In addition, over the period from 2006 to 2030, coal demand in PRC's non-electricity sectors is expected to increase by 13.9 quadrillion Btu, to 51% above the 2006 level. As set out in the Outlook, the PRC is projected to report a substantial increase in coal imports totaling 3.3 quadrillion Btu with its exports totaling 1.0 quadrillion Btu in 2030.

The Mongolian economy has grown steadily from 2000 to 2009. According to the World Economic Outlook, October 2009 edition published by the International Monetary Fund, the gross domestic product of Mongolia grew from approximately US$1.09 billion (equivalent to approximately HK$8.50 billion) in 2000 to approximately US$4.21 billion (equivalent to approximately HK$32.8 billion) in 2009, representing a CAGR of approximately 16.2%. Based on the information published on the website of the Foreign Investment and Foreign Trade Agency of Mongolia (www.investmongolia.com), Mongolia has abundant natural resources with coal reserves estimated at 100 billion metric tons. During the period from 2004 to 2008, annual coal production and coal consumption in Mongolia increased with a CAGR of approximately 10.5% and 4.3% respectively. According to the 2008 Minerals Yearbook published by U.S. Geological Survey, a science agency for the U.S. Department of the Interior, 95% of the electricity in Mongolia in 2008 was generated from coal-fired power plants and more than 80% of the coal consumed in Mongolia was used to generate electricity. In light of the economic growth in Mongolia as mentioned above, the demand for coal is expected to increase in order to support electricity consumption in Mongolia. Moreover, Mongolia's coal exports could benefit from the increasing global demand for coal as described above.

In view of the above, we consider that the outlook for the coal industry is generally positive.

Having considered that (i) the Acquisition would provide an opportunity for the Group to broaden its source of income; and (ii) the outlook for the coal industry is in general positive, we are of the view that the Acquisition is in the interests of the Company and the Independent Shareholders as a whole.

4. Evaluation of the Consideration

As stated in the Letter from the Board, the Consideration was determined after arm's length negotiations between the Company and the Vendors by reference to a preliminary estimated valuation of US$255 million (equivalent to approximately HK$1,976 million) on the value of TNE or the value of the Major Licenses, which was prepared by BMI Appraisals Limited in November 2009, subject to the Company obtaining an independent valuation conducted by an independent valuer appraising the value of TNE or the value of the Major Licenses to be not less than US$250 million (equivalent to approximately HK$1,937.5 million).

The market value of a 100% equity interest in TNE as at 31 March 2010 was valued by BMI Appraisals Limited (the "Valuer"), an independent professional valuer, at US$320 million (equivalent to approximately HK$2,480 million) (the "Valuation Amount"). A copy of the valuation report is set out in Appendix V to the Circular. In assessing the fairness and reasonableness of the basis for determining the Consideration, we have reviewed the valuation report prepared by the Valuer. We have also discussed with the Valuer the methodologies adopted as well as the bases and assumptions used in arriving at the Valuation Amount. We note that the Valuer has adopted the income approach for the valuation. We understand from the Valuer that the cost approach was considered not appropriate in performing the valuation as only the costs of recreating TNE are considered under this approach and the costs may not represent market value. The Valuer also considered the market approach to be inadequate in performing the valuation as the expected growth in sales and earnings, its expected risk as well as the unique operating characteristics of TNE are not taken into account under this approach. Therefore, the Valuer determined that the income approach was the most appropriate approach for the valuation. The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset. The Valuer has applied the discounted cash flow method under the income approach. We understand from the Valuer that in applying this method, the expected cash flows of TNE in the future were determined. The results were then discounted using a discount rate to determine the present value of the expected cash flows. We have discussed with the Valuer the principal assumptions used in the calculation of the expected cash flows in relation to, among others, expected coal production of the TNE Mine, expected coal sales prices, expected capital cost and operating costs as well as the basis in determining the discount rate adopted for the valuation. We also understand from the Valuer that a discount for lack of marketability has been applied to the present value of the expected cash flows in performing the valuation to reflect the lack of a ready market for the shares in TNE which is a closely held company as compared to similar interests in publicly listed companies. Based on our review of the valuation report and discussions with the Valuer, we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the methodologies adopted and the bases and the assumptions applied by the Valuer in arriving at the Valuation Amount.

In assessing the fairness and reasonableness of the Consideration, we have attempted to select transactions that are comparable to the Acquisition based on the criteria that (i) the transactions were related to the acquisitions of coal mining-related assets in the PRC or Mongolia; (ii) the considerations of the transactions were determined with reference to their respective valuations; and (iii) the transactions were conducted by companies listed in Hong Kong or the PRC which announced their respective acquisitions during the six-month period from 6 June 2009 to 5 December 2009, being the date of the Acquisition Agreement (the "Agreement Date"). We have identified, based on our research of the published information in the public domain, five transactions that meet the above mentioned criteria for comparison purpose ("Comparable Acquisitions"). As the Comparable Acquisitions took place within the six-month period prior to the Agreement Date, we consider that their terms would reflect the general trend of similar acquisitions in the market during the relevant period and are hence of the view that the Comparable Acquisitions form a fair and reasonable basis for our analysis. We have compared the premium/discount of the considerations to the corresponding valuations of the Comparable Acquisitions. We set out below our findings:

Initial announcement date	**Issuer (Stock code)**	**Stock exchange**	**Nature of assets acquired**	**Consideration** *(Approximately)*	**Valuation** *(Approximately)*	**Premium/ (Discount) of consideration over/to valuation**
10 June 2009	Dongguan Winnerway Industrial Zone Co., Ltd. (000573)	Shenzhen	100% equity interest in 威寧縣結里煤焦有限公司 (Weining County Jieli Coke Tar Ltd.) which holds a mining licence in respect of a coal mine located in Weining County, the PRC	RMB74.8 million *(Note 1)*	RMB82.5 million	(9.4%)
2 September 2009	Inner Mongolia Yuan Xing Energy Co., Ltd. ("Yuan Xing") (000683)	Shenzhen	32.1% equity interest in 內蒙古博源煤化工有限責任公司 (Inner Mongolia Bo Yuan Coal Chemical Ltd.) ("Bo Yuan") which has obtained approval from the National Development and Reform Commission of the PRC in respect of its coal mining project relating to a coal mine located in Inner Mongolia and was in the process of applying for a mining licence in respect of the coal mine as at the date of the relevant announcement *(Note 2)*	RMB364.8 million *(Note 1)*	RMB364.8 million	0.0%
29 September 2009	Qing Hai Jin Rui Mineral Development Co., Ltd. (600714)	Shanghai	100% equity interest in 青海省西海煤炭開發有限責任公司 (Qing Hai Xi Hai Coal Development Ltd.) which holds a mining licence in respect of a coal mine located in Qing Hai Province, the PRC	RMB496.0 million *(Note 1)*	RMB496.0 million	0.0%

Initial announcement date	Issuer (Stock code)	Stock exchange	Nature of assets acquired	Consideration *(Approximately)*	Valuation *(Approximately)*	Premium/ (Discount) of consideration over/to valuation
3 November 2009	Huadian Power International Corporation Limited (1071)	Hong Kong	(i) 35% equity interest in 內蒙古福城礦業有限公司 (Inner Mongolia Fucheng Mining Co., Ltd.) ("Fucheng Mining") *(Note 3)*	RMB498.0 million *(Note 1)*	RMB513.0 million	(2.9%)
			(ii) 25% equity interest in 內蒙古鄂托克前旗長城煤礦有限責任公司 (Inner Mongolia Ertuokeqianqi Changcheng Mine Co., Ltd.) which has acquired mining rights in relation to a coal mine located in Inner Mongolia	RMB180.0 million *(Note 1)*	RMB182.3 million	(1.3%)
23 September 2009	Yun Sky Chemical (International) Holdings Ltd. (currently known as King Stone Energy Group Ltd.) (663) ("Yun Sky")	Hong Kong	Entire issued share capital of Triumph Fund A Limited, an indirectly owned subsidiary of which is the registered and beneficial owner of the mining licences over two coal mines located in Inner Mongolia (the "**Licence Holder**")	HK$1,855 million *(Note 4)*	RMB3,100 million (equivalent to approximately HK$3,506 million)	(47.1%)
Range						**(47.1%) to 0.0%**
29 December 2009	**The Company (402)**	**Hong Kong**	**100% of the issued share capital of the Target Company**	**HK$1,937.5 million**	**US$320 million (equivalent to approximately HK$2,480 million)**	**(21.9)%**

Notes:

1 According to the relevant announcement, the consideration was determined taking into account of the appraised net asset value of the target company.

2 According to the announcement of Yuan Xing dated 19 March 2010, Bo Yuan has been granted a mining licence in respect of the relevant coal mine for a term of 30 years.

3 According to the relevant announcement, the planned production capacity of the coal mine owned by Fucheng Mining in the defined mining zone is 2.4 million tonnes per year as approved by the Ministry of Land and Resources and the approval application of the project has been submitted to the National Development and Reform Commission of the PRC.

4 According to the relevant announcement, the consideration was based on 90% of the valuation of the coal mines less the total liabilities of the Licence Holder as recorded in its management accounts as at 30 June 2009 which amounted to approximately RMB1,150 million.

As shown above, the discount represented by the Consideration to the Valuation Amount lies within the range of those of the Comparable Acquisitions.

Given that (i) the Consideration has been determined after arm's length negotiations between the relevant parties; (ii) we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the methodologies adopted as well as the bases and the assumptions applied by the Valuer in arriving at the Valuation Amount; and (iii) the discount represented by the Consideration to the Valuation Amount lies within the range of those of the Comparable Acquisitions, we consider the Consideration to be fair and reasonable so far as the Company and the Independent Shareholders are concerned and is on normal commercial terms.

5. Financing of the Acquisition

The Consideration of HK$1,937.5 million shall be satisfied (i) as to HK$200 million payable by the Purchaser to Sino Access (or its nominee) in cash upon Completion; (ii) as to HK$350 million by way of procuring the Company to issue the Promissory Note to Sino Access (or its nominee) upon Completion; (iii) as to HK$433.4 million by way of procuring the Company to allot and issue 1,970 million Consideration Shares at an issue price of HK$0.22 per Consideration Share to Best State (or its nominee) upon Completion; and (iv) as to HK$954.1 million by way of procuring the Company to issue the Convertible Note to Best State (or its nominee) upon Completion.

We note from the paragraph headed "Reasons for the Placing and use of proceeds" in the section headed "The Placing" in the Letter from the Board that HK$200 million of the proceeds from the Placing will be used as payment for part of the Consideration. On such basis, we consider that the payment of the cash consideration from the Placing proceeds will not create any material adverse impact on the working capital of the Group.

As set out in the Letter from the Board, HK$433.4 million of the Consideration (which represents approximately 22.4% of the Consideration) will be satisfied by the allotment and issue of 1,970 million Consideration Shares at the Issue Price. We are of the opinion that the issue of the Consideration Shares would enable the Group to partly finance the Acquisition without utilising cash of the Group or incurring additional borrowings.

We understand that approximately 67.3% of the Consideration will be satisfied by the issue of the Promissory Note and the Convertible Note. The Promissory Note will mature in two years from the date of issue of the Promissory Note whereas the Convertible Note will mature on the fifth anniversary of the date of issue of the Convertible Note. Moreover, the Convertible Note is non-redeemable prior to the maturity date. We note that the Company shall have the right on the first maturity date to extend the maturity date in respect of the amount of the outstanding Convertible Note for another five years. For further information about the principal terms of the Promissory Note and the Convertible Note, please refer to the respective paragraphs headed "Promissory Note" and "Convertible Note" in the section headed "The Acquisition Agreement" in the Letter from the Board. Based on the above, we are of the view that the issue of the Promissory Note and the Convertible Note would enable the Group to finance a significant portion of the Consideration and at the same time limit the amount of immediate cash outlay of the Group. Moreover, as the Promissory Note and the Convertible Note will be non-interest bearing, the Group will not incur any interest expense in relation thereto.

6. Issue Price and Initial Conversion Price

As stated in the Letter from the Board, each of the Issue Price of HK$0.22 per Consideration Share and the Initial Conversion Price of HK$0.22 per Conversion Share was determined after arm's length negotiations between the Purchaser and the Vendors.

The Issue Price and Initial Conversion Price represent:

(i) a discount of approximately 69.9% to the closing price of the Shares of HK$0.73 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 69.4% to the average of the closing prices of the Shares of approximately HK$0.72 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 55.1% to the average of the closing prices of the Shares of approximately HK$0.49 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 47.6% to the average of the closing prices of the Shares of approximately HK$0.42 per Share as quoted on the Stock Exchange for the 60 consecutive trading days up to and including the Last Trading Day;

(v) a discount of approximately 26.2% to the average of the closing prices of the Shares of approximately HK$0.298 per Share as quoted on the Stock Exchange for the twelve-month period from 5 December 2008 to the Last Trading Day;

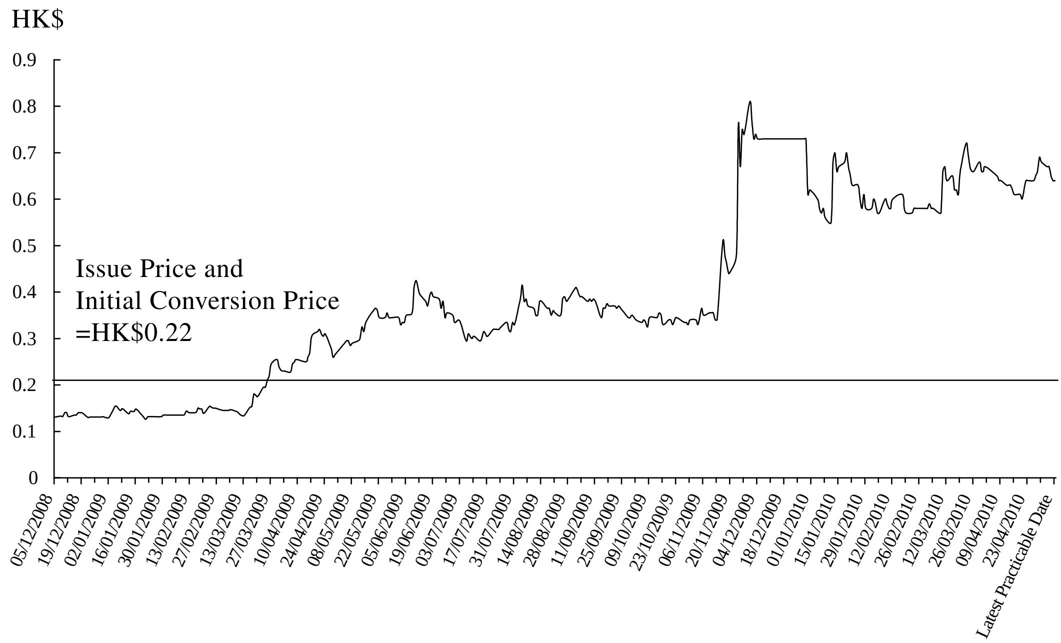
(vi) a discount of approximately 65.6% to the closing price of the Shares of HK$0.64 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(vii) a discount of approximately 54.2% to the audited net assets attributable to equity holders of the Company as at 31 March 2009 of approximately HK$0.48 per Share.

As indicated above, the Issue Price and the Initial Conversion Price represent a significant discount to the closing price of the Shares as quoted on the Stock Exchange on the Last Trading Day. However, we note from the Letter from the Board that during the course of negotiation on the terms of the Acquisition Agreement, both the Board and the Vendors considered that it would be more meaningful to take the average closing price of the Shares over a longer trading period as a reference to fix the Issue Price and the Initial Conversion Price. Therefore, the Board made reference to the historical Share price performance for the past twelve months prior to the signing of the Acquisition Agreement, instead of only considering the market price of the Shares immediately preceding the date of the Acquisition Agreement in determining the Issue Price and the Initial Conversion Price. In this regard, we note that the Issue Price and the Initial Conversion Price represent a discount of approximately 26.2% to the average of the closing prices of the Shares of approximately HK$0.298 per Share for the twelve-month period from 5 December 2008 to 4 December 2009, being the last trading day for the Shares before the date of the Acquisition Agreement. In assessing the fairness and reasonableness of the Issue Price and the Initial Conversion Price, we have considered the following factors:

6.1 Historical Share price performance

The chart below illustrates the closing prices of the Shares as quoted on the Stock Exchange during the period from 5 December 2008 (being the twelve-month period prior to the last trading day for the Shares before the date of the Acquisition Agreement) to the Latest Practicable Date (the "Review Period").



Note: Trading of Shares was suspended from 13 to 15 November 2009 and from 7 to 29 December 2009 during the Review Period.

As illustrated in the chart above, during the Review Period, the Shares were traded with closing prices in the range of HK$0.126 per Share on 21 January 2009 to HK$0.81 per Share on 30 November 2009. The prices of the Shares closed at levels below the Issue Price and the Initial Conversion Price from 5 December 2008 to 25 March 2009 and started an upward trend thereafter. We note that the closing price of the Shares surged from HK$0.34 per Share on 12 November 2009, being the date immediately preceding the announcement in relation to the Memorandum of Understanding, to HK$0.73 per Share on the Last Trading Day, representing an increase of approximately 114.7%. As at the Latest Practicable Date, the Share price closed at HK$0.64. However, as illustrated in the chart above, during the Review Period, the closing prices of the Shares ranged from HK$0.126 to HK$0.81 and the Issue Price and Initial Conversion Price lie within this range.

6.2 Comparison of Issue Price with other issues of new securities

In assessing the fairness and reasonableness of the Issue Price, we have attempted to select companies which are listed on the Stock Exchange and have announced their respective very substantial acquisitions that involved the issue of new securities during the six-month period from 6 June 2009 to 5 December 2009, being the Agreement Date. Based on our research of published information, we have identified 21 companies ("Share Comparables") that meet our criteria for comparison purpose and made reference to the relevant transactions (the "Comparable Share Transactions"). As the Comparable Share Transactions took place within the six-month period prior to the Agreement Date, we consider that the terms of the Comparable Share Transactions would reflect the general trend of similar transactions in the market during the relevant period and are hence of the view that the Comparable Share Transactions form a fair and reasonable basis for our comparison and analysis. The following table sets out the comparison of the Issue Price to the issue prices of the Comparable Share Transactions:

Initial announcement date	Issuer (Stock code)	Amount involved *(Approximately HK$ million)*	Premium/(Discount) of the issue price of consideration shares over/to the closing price of the shares on the last trading day prior to the relevant announcements	Premium/(Discount) of the issue price of consideration shares over/to the average of the closing prices of the shares for the twelve-month period prior to the date of the relevant agreements	Premium/(Discount) of the issue price of consideration shares over/to the net asset value per share
8 June 2009	China Power International Development Limited (2380)	3,531.9	(9.8%)	32.9%	(4.8%) *(Note 1)*
23 June 2009	GCL-Poly Energy Holdings Ltd. (3800)	22,088.5	(12.0%)	132.9%	(18.0%) *(Note 1)*
24 June 2009	China Bio Cassava Holdings Ltd. (8129)	144.0	(6.6%)	96.6%	2,827.0% *(Note 2)*

Initial announcement date	Issuer (Stock code)	Amount involved *(Approximately HK$ million)*	Premium/(Discount) of the issue price of consideration shares over/to the closing price of the shares on the last trading day prior to the relevant announcements	Premium/(Discount) of the issue price of consideration shares over/to the average of the closing prices of the shares for the twelve-month period prior to the date of the relevant agreements	Premium/(Discount) of the issue price of consideration shares over/to the net asset value per share
2 July 2009	GreaterChina Technology Group Ltd. (currently known as Coolpoint Energy Ltd.) (8032)	69.4	(38.1%)	33.5%	96.2% *(Note 2)*
3 July 2009	China Precious Metal Resources Holdings Co., Ltd. (1194)	98.6	(19.5%)	63.3%	725.4% *(Note 2)*
8 July 2009	Green Global Resources Ltd. (61)	31.5	(71.1%)	(31.6%)	(61.8%) *(Note 2)*
8 July 2009	North Mining Shares Company Ltd. (433)	820.2	(20.0%)	318.9%	344.4% *(Note 1)*
24 July 2009	Prosperity International Holdings (H.K.) Ltd. (803)	1,621.9	(35.1%)	94.1%	584.9% *(Note 1)*
11 August 2009	Emperor International Holdings Ltd. (163)	196.9	0.0%	(10.2%)	(62.2%) *(Note 1)*
14 August 2009	Sino Union Petroleum & Chemical International Ltd. (currently known as Sino Union Energy Investment Group Limited) (346)	2,500.0	3.4%	12.5%	(35.3%) *(Note 1)*
20 August 2009	The Quaypoint Corporation Ltd. (currently known as China Uptown Group Company Limited) (2330)	246.8	(13.8%)	124.4%	2,678.0% *(Note 2)*
26 August 2009	EPI (Holdings) Ltd. (689)	190.0	(33.3%)	59.7%	1.6% *(Note 2)*
7 September 2009	Broad Intelligence International Pharmaceutical Holdings Ltd. (1149)	85.2	(1.5%)	42.0%	(44.4%) *(Note 1)*
17 September 2009	Buildmore International Ltd. (108)	42.0	(22.9%)	(7.3%)	61.1% *(Note 2)*
23 September 2009	Sino-Tech International Holdings Ltd. (724)	194.4	(68.4%)	(17.8%)	9.1% *(Note 2)*
1 October 2009	RBI Holdings Ltd. (currently known as Apollo Solar Energy Technology Holdings Ltd.) (566)	367.4	1.2%	975.5%	174.2% *(Note 1)*

Initial announcement date	Issuer (Stock code)	Amount involved *(Approximately HK$ million)*	Premium/(Discount) of the issue price of consideration shares over/to the closing price of the shares on the last trading day prior to the relevant announcements	Premium/(Discount) of the issue price of consideration shares over/to the average of the closing prices of the shares for the twelve-month period prior to the date of the relevant agreements	Premium/(Discount) of the issue price of consideration shares over/to the net asset value per share
13 October 2009	Berjaya Holding (HK) Ltd. (currently known as Cosway Corporation Ltd.) (288)	171.7	(73.0%)	(15.2%)	566.7% *(Note 2)*
22 October 2009	Xian Yuen Titanium Resources Holdings Ltd. (353)	246.2	(37.0%)	5.9%	(56.3%) *(Note 2)*
13 November 2009	Honbridge Holdings Ltd. (8137)	480.0	(5.9%)	49.5%	189.5% *(Note 2)*
30 November 2009	Continental Holdings Ltd. (513)	300.0	(15.0%)	113.0%	(44.1%) *(Note 2)*
2 December 2009	Bio-dynamic Group Ltd. (39)	37.0	(2.9%)	45.0%	(31.7%) *(Note 2)*
Range			**(73.0%) to 3.4%**	**(31.6%) to 975.5%**	**(62.2%) to 2,827.0%**
30 December 2009	**The Company (402)**	**433.4**	**(69.9%)**	**(26.2%)**	**(54.2%)**

Notes:

1. The net asset value per share is calculated based on the latest published audited net assets of the respective Share Comparables prior to the date of their respective initial announcement and the number of shares outstanding on the date of their respective initial announcement.

2. The premium/(discount) is extracted from the respective initial announcements of the Share Comparables.

As shown in the above table, the premium/discount represented by the issue prices over/to the closing prices of the Comparable Share Transactions on the last trading day prior to the release of the respective announcements ranged from a discount of approximately 73.0% to a premium of approximately 3.4%. Although the discount of approximately 69.9% as represented by the Issue Price to the closing price of the Shares on the Last Trading Day lies toward the upper end of the range of discounts of the Comparable Share Transactions, we consider that the discount represented by the Issue Price is in line with the general market trend during the relevant period given the fact that it falls within the range of that of the Comparable Share Transactions.

In addition, as mentioned above, the Board made reference to the historical Share price performance for the twelve months prior to the signing of the Acquisition Agreement in determining the Issue Price. We have compared the premium/discount represented by the issue prices over/to the average of the closing prices of the Comparable Share Transactions for the twelve-month period prior to the date of the relevant agreements and note that the premium/discount of the Comparable Share Transactions ranged from a discount of approximately 31.6% to a premium of approximately 975.5%. The discount of approximately 26.2% as represented by the Issue Price to the average of the closing prices of the Shares for the twelve-month period prior to the date of the Acquisition Agreement falls within the range of that of the Comparable Share Transactions which we consider to be in line with the general market trend during the relevant period.

As set out in the above table, the discount represented by the Issue Price to the audited net assets attributable to equity holders of the Company as at 31 March 2009 of approximately HK$0.48 per Share also lies within the range of that of the Comparable Share Transactions.

6.3 *Comparison of Initial Conversion Price with other issues of convertible bonds/notes*

In assessing the fairness and reasonableness of the Initial Conversion Price, we considered comparison with very substantial acquisitions of other companies listed on the Stock Exchange that involved the issue of convertible bonds/notes. Based on our research of published information, we have identified 19 companies listed on the Stock Exchange ("CB Comparables") that have announced their respective very substantial acquisitions which involved the issue of convertible bonds/notes during the six-month period from 6 June 2009 to 5 December 2009, being the Agreement Date and made reference to the relevant transactions (the "Comparable CB Issues") in our analysis. As the Comparable CB Issues took place within the six-month period prior to the Agreement Date, we consider that the terms of the Comparable CB Issues would reflect the general trend of similar transactions in the market during the relevant period and are hence of the view that the Comparable CB Issues form a fair and reasonable basis for our comparison and analysis. We set out below our findings:

Initial announcement date	Issuer (Stock code)	Principal amount *(Approximately HK$ million)*	Maturity	Premium/(Discount) of the initial conversion price over/to the closing price of the shares on the last trading day prior to the relevant announcements	Premium/(Discount) of the initial conversion price over/to the average of the closing prices of the shares for the twelve-month period prior to the date of the relevant agreements	Premium/(Discount) of the initial conversion price over/to the net asset value per share
11 June 2009	China Properties Investment Holdings Ltd. (736)	260.0	3 years	(41.8%)	15.0%	60.5% *(Note 1)*
3 July 2009	China Precious Metal Resources Holdings Co., Ltd. (1194)	170.9	2 years	0.0%	102.9%	929.4% *(Note 1)*

Initial announcement date	Issuer (Stock code)	Principal amount *(Approximately HK$ million)*	Maturity	Premium/(Discount) of the initial conversion price over/to the closing price of the shares on the last trading day prior to the relevant announcements	Premium/(Discount) of the initial conversion price over/to the average of the closing prices of the shares for the twelve-month period prior to the date of the relevant agreements	Premium/(Discount) of the initial conversion price over/to the net asset value per share
10 July 2009	Brilliant Art Multi-Media Holding Ltd. (currently known as Xing Lin Medical Information Technology Co., Ltd.) (8130)	750.0	10 years	(70.2%)	(95.1%)	(93.3%) *(Note 2)*
14 August 2009	Sino Union Petroleum & Chemical International Ltd. (currently known as Sino Union Energy Investment Group Limited) (346)	2,300.0	3 years	3.4%	12.5%	(35.3%) *(Note 2)*
26 August 2009	EPI (Holdings) Ltd. (689)	2,312.0	20 years	(28.1%)	72.3%	9.6% *(Note 1)*
7 September 2009	Broad Intelligence International Pharmaceutical Holdings Ltd. (1149)	1,179.9	5 years	(1.5%)	42.0%	(44.4%) *(Note 2)*
17 September 2009	Buildmore International Ltd. (108)	273.0	3 years	(22.9%)	(7.3%)	61.1% *(Note 1)*
22 September 2009	Shanghai Allied Cement Ltd. (currently known as ChinaVision Media Group Ltd.) (1060)	350.0	3 years	135.3%	233.2%	471.4% *(Note 2)*
23 September 2009	Sino-Tech International Holdings Ltd. (724)	950.4	5 years	(68.4%)	(17.8%)	9.1% *(Note 1)*
23 September 2009	Yun Sky Chemical (International) Holdings Ltd. (currently known as King Stone Energy Group Ltd.) (663)	1,855.0	5 years	(69.2%)	(53.7%)	285.8% *(Note 2)*
23 September 2009	Hembly International Holdings Ltd. (3989)	676.0	5 years	22.5%	145.2%	2.1% *(Note 1)*
27 September 2009	Bright International Group Ltd. (1163)	6,950.0	3 years	(9.1%)	74.3%	(5.5%) *(Note 2)*

Initial announcement date	Issuer (Stock code)	Principal amount *(Approximately HK$ million)*	Maturity	Premium/(Discount) of the initial conversion price over/to the closing price of the shares on the last trading day prior to the relevant announcements	Premium/ (Discount) of the initial conversion price over/to the average of the closing prices of the shares for the twelve-month period prior to the date of the relevant agreements	Premium/(Discount) of the initial conversion price over/to the net asset value per share
1 October 2009	RBI Holdings Ltd. (currently known as Apollo Solar Energy Technology Holdings Ltd.) (566)	3,815.0	4 years	1.2%	975.5%	174.2% *(Note 2)*
11 October 2009	Asia Coal Ltd. (835)	300.0	5 years	(43.7%)	(16.1%)	(9.3%) *(Note 1)*
13 November 2009	Honbridge Holdings Ltd. (8137)	400.0	5 years	17.6%	86.8%	237.1% *(Note 1)*
19 November 2009	Ching Hing (Holdings) Ltd. (692)	1,680.0	3 years	4.8%	10.8%	29.4% *(Note 1)*
30 November 2009	Continental Holdings Ltd. (513)	325.0	3 years	(5.0%)	138.1%	(37.5%) *(Note 1)*
30 November 2009	Solartech International Holdings Ltd. (1166)	1,432.0	3 years	7.1%	(27.2%)	(68.6%) *(Note 2)*
2 December 2009	Aptus Holdings Ltd. (8212)	1,500.0	6 years	(36.7%)	(20.9%)	(56.1%) *(Note 2)*
Range				**(70.2%) to 135.3%**	**(95.1%) to 975.5%**	**(93.3%) to 929.4%**
30 December 2009	**The Company (402)**	**954.1**	**5 years**	**(69.9%)**	**(26.2%)**	**(54.2%)**

Notes:

1 The premium/(discount) is extracted from the respective initial announcements of the CB Comparables.

2 The net asset value per share is calculated based on the latest published audited net assets of the respective CB Comparables prior to the date of their respective initial announcement and the number of shares outstanding on the date of their respective initial announcement.

As set out above, the premium/discount represented by the initial conversion prices over/to the closing prices of the shares of the CB Comparables on the last trading day prior to the release of the respective announcements ranged from a discount of approximately 70.2% to a premium of approximately 135.3%. Although the discount of approximately 69.9% as represented by the Initial Conversion Price to the closing price of the Shares on the Last Trading Day lies toward the upper end of the range of discounts of the Comparable CB Issues, we consider that the discount represented by the Initial Conversion Price is in line with the general market trend during the relevant period given the fact that it falls within the range of that of the Comparable CB Issues.

In addition, as shown in the above table, the discount of approximately 26.2% as represented by the Initial Conversion Price to the average of the closing prices of the Shares for the twelve-month period prior to the date of the Acquisition Agreement lies within the range of that of the Comparable CB Issues from a discount of approximately 95.1% to a premium of approximately 975.5%. The discount represented by the Initial Conversion Price to the audited net assets attributable to equity holders of the Company as at 31 March 2009 of approximately HK$0.48 per Share also lies within the range of that of the Comparable CB Issues.

We consider that as (i) each of the Issue Price of HK$0.22 per Consideration Share and the Initial Conversion Price of HK$0.22 per Conversion Share was determined after arm's length negotiations between the Purchaser and the Vendors; (ii) the closing prices of the Shares ranged from HK$0.126 to HK$0.81 during the Review Period and the Issue Price as well as the Initial Conversion Price lie within this range; (iii) the discounts represented by the Issue Price to (a) the closing price of the Shares on the Last Trading Day; (b) the average of the closing prices of the Shares for the twelve-month period prior to the date of the Acquisition Agreement; and (c) the audited net assets attributable to equity holders of the Company as at 31 March 2009 of approximately HK$0.48 per Share lie within the ranges of those of the Comparable Share Transactions which are in line with the general market trend during the relevant period; and (iv) the discounts represented by the Initial Conversion Price to (a) the closing price of the Shares on the Last Trading Day; (b) the average of the closing prices of the Shares for the twelve-month period prior to the date of the Acquisition Agreement; and (c) the audited net assets attributable to equity holders of the Company as at 31 March 2009 of approximately HK$0.48 per Share lie within the ranges of those of the Comparable CB Issues which are in line with the general market trend during the relevant period, each of the Issue Price and the Initial Conversion Price is fair and reasonable so far as the Company and the Independent Shareholders are concerned and is on normal commercial terms.

7. Compensation Note

We understand from the Company that the consideration to be paid by the Purchaser in respect of the value of Camex LLC Group (excluding TNE) or the value of the Other Licences (the "Fair Value") could not be determined at the time of entering into of the Acquisition Agreement as no valuation in respect thereof was available at the relevant time.

As set out in the Letter from the Board, pursuant to the Acquisition Agreement, as soon as reasonably practicable and in any event not later than eight months after the Completion Date, the Vendors and the Purchaser shall use their respective best endeavours to obtain, or procure the obtaining of:

(a) the Second Valuation Report in form and substance satisfactory to the Purchaser stating that the Fair Value being not less than HK$1,550 million; and

(b) the Second Technical Report in form and substance satisfactory to the Purchaser.

Subject to fulfilment of the above conditions, the Compensation at a maximum amount of HK$3,100 million shall be payable by the Purchaser by way of procuring the Company to issue the Compensation Note to Best State (or its nominee) within ten Business Days from the date of the Second Technical Report or the Second Valuation Report, whichever shall be the later. The principal amount of the Compensation Note shall be:

(a) the Fair Value, if such Fair Value as shown in the Second Valuation Report is equal to or more than HK$1,550 million but less than HK$3,100 million; or

(b) HK$3,100 million, if the Fair Value as shown in the Second Valuation Report is equal to or more than HK$3,100 million.

No payment shall be made if the Fair Value as shown in the Second Valuation Report is less than HK$1,550 million.

As discussed with the Company, the Second Valuation Report will be prepared by an independent professional valuer acceptable to the Purchaser whereas the Second Technical Report, which will be prepared in compliance with the requirements under Chapter 18 of the Listing Rules, will be issued by an independent technical adviser acceptable to the Purchaser. The Directors consider that the above mechanism under the Acquisition Agreement in determining the Fair Value and the amount of the Compensation Note, if any, is acceptable and we concur with their view.

The Compensation Note will mature on the fifth anniversary of the date of issue of the Compensation Note, with the initial conversion price being HK$0.31 per Conversion Share (subject to adjustment). The principal terms of the Compensation Note are set out in the paragraph headed "Compensation Note" in the section headed "The Acquisition Agreement" in the Letter from the Board. We note that the Compensation Note is non-redeemable prior to the maturity date, and the Company shall have the right to extend the maturity date in respect of the amount of the outstanding Compensation Note not having been converted on the first maturity date for another five years. Accordingly, we consider that the issue of the Compensation Note would enable the Group to fully finance the Compensation without requiring immediate cash outlay of the Group. In addition, we note that the Compensation Note will be non-interest bearing and hence will not create any financial burden on the Group in this regard.

A maximum of 10,000,000,000 Conversion Shares will be allotted and issued upon full conversion of the Compensation Note. The initial conversion price of the Compensation Note of HK$0.31 per Conversion Share represents:

(i) a discount of approximately 51.6% to the closing price of the Shares of HK$0.64 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 57.5% to the closing price of the Shares of HK$0.73 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 36.7% to the average of the closing prices of the Shares of approximately HK$0.49 per Share as quoted on the Stock Exchange for the last 30 trading days immediately prior to and including the Last Trading Day;

(iv) a discount of approximately 26.2% to the average of the closing prices of the Shares of approximately HK$0.42 per Share as quoted on the Stock Exchange for the last 60 trading days immediately prior to and including the Last Trading Day;

(v) a premium of approximately 4.0% to the average of the closing prices of the Shares of approximately HK$0.298 per Share as quoted on the Stock Exchange for the twelve-month period from 5 December 2008 to the Last Trading Day;

(vi) a discount of approximately 11.4% to the average of the closing prices of the Shares of approximately HK$0.35 per Share as quoted on the Stock Exchange for the last 10 trading days immediately prior to and including the Pre-MOU Day;

(vii) a discount of approximately 8.8% to the average of the closing prices of the Shares of approximately HK$0.34 per Share as quoted on the Stock Exchange for the last 30 trading days immediately prior to and including the Pre-MOU Day; and

(viii) a discount of approximately 35.4% to the audited net assets attributable to equity holders of the Company as at 31 March 2009 of approximately HK$0.48 per Share.

Having taken into account that (i) the initial conversion price of the Compensation Note of HK$0.31 lies within the range of closing prices of the Shares from HK$0.126 to HK$0.81 during the Review Period as mentioned above; and (ii) the discounts represented by the initial conversion price of the Compensation Note to (a) the closing price of the Shares on the Last Trading Day; and (b) the audited net assets attributable to equity holders of the Company as at 31 March 2009 of approximately HK$0.48 per Share lie within the ranges of those of the Comparable CB Issues as stated above, we consider that the initial conversion price of the Compensation Note is fair and reasonable so far as the Company and the Independent Shareholders are concerned and is on normal commercial terms.

8. Potential dilution effect

According to the tables set out in the section headed "Effects on shareholding structure of the Company" in the letter from the Board, the existing Independent Shareholders will suffer a dilution to their shareholdings as a result of the Acquisition and the Placing. Set out below is a table showing the possible effects of the Acquisition and the Placing on the shareholding interest of the existing Independent Shareholders:

	As at the Latest Practicable Date	Upon Completion and issue of the Consideration Shares and Placing Shares	Upon Completion and issue of the Consideration Shares and Placing Shares and assuming full conversion of the Convertible Note	Upon Completion and issue of the Consideration Shares and Placing Shares and assuming full conversion of the Convertible Note and HK$1,550 million Compensation Note	Upon Completion and issue of the Consideration Shares and Placing Shares and assuming full conversion of the Convertible Note and HK$3,100 million Compensation Note
(i) Assuming 3,800,000,000 Placing Shares are issued					
	43.74%	5.48%	3.31%	2.27%	1.73%
(ii) Assuming 4,000,000,000 Placing Shares are issued					
	43.74%	5. 32%	3.25%	2.24%	1.71%

Having taken into account that:

(i) approximately 71.6% of the Consideration under the Acquisition Agreement will be satisfied by way of issue of the Consideration Shares and the Convertible Note which enables the Group to finance a significant portion of the Consideration and at the same time limit the amount of immediate cash outlay of the Group; and

(ii) Completion shall be conditional upon, among others, the Purchaser and/or the Company having successfully raised from the equity market no less than HK$400,000,000 but not more than HK$480,000,000 by way of placement of new Shares in cash to finance the cash portion of the Consideration;

(iii) the issue of the Compensation Note would enable the Group to fully finance the Compensation and at the same time release the Group from immediate cash outflow; and

(iv) the Acquisition would provide an opportunity for the Group to broaden its source of income as discussed in the sub-paragraph headed "Earning prospects" in the paragraph headed "Financial effects of the Acquisition" below,

we consider that the potential dilution on the shareholding interest of the existing Independent Shareholders is acceptable.

9. Financial effects of the Acquisition

9.1 Net asset value

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to the Circular, assuming the Acquisition had taken place on 30 September 2009, the unaudited pro forma net asset value of the Enlarged Group attributable to equity holders of the Company will be approximately HK$1,943,645,000, representing an increase of approximately HK$1,566,867,000 when compared to the unaudited net assets attributable to equity holders of the Company as at 30 September 2009 of approximately HK$376,778,000. The increase in the net asset value based on the unaudited pro forma net asset value of the Enlarged Group mainly arises from (i) the inclusion of the net assets of the Target Group of approximately HK$1,072,667,000 comprising mainly exploration and evaluation assets; (ii) fair value adjustment in relation to the Major Licences of approximately HK$1,391,059,000; and (iii) the remaining balance of the estimated net proceeds from the Placing of HK$475.2 million after payment of the cash consideration in respect of the Acquisition of HK$200 million, and after deducting (a) the estimated fair value of the Promissory Note as at 30 September 2009 of approximately HK$284,156,000; (b) the liability component of the Convertible Note of approximately HK$492,968,000; (c) the fair value of the extension option of HK$37,171,000 relating to the Company's right on the first maturity date of the Convertible Note to extend the maturity date in respect of the outstanding note amount for another five years which is classified as non-current liabilities; and (d) deferred tax liabilities of HK$347,764,000. As noted above, there will not be any significant adverse impact on the net asset value of the Group immediately following the Acquisition.

We note that the unaudited net assets attributable to equity holders of the Company as at 30 September 2009 amounted to approximately HK$0.46 per Share (calculated based on 826,480,000 Shares in issue as at the Latest Practicable Date). Upon Completion and issue of the Consideration Shares and Placing Shares and assuming full conversion of the Convertible Note, the number of Shares in issue will increase to 10,933,298,182 Shares (assuming 3,800 million Placing Shares are issued) or 11,133,298,182 Shares (assuming 4,000 million Placing Shares are issued). On such basis, the unaudited pro forma net asset value of the Enlarged Group attributable to equity holders of the Company will be approximately HK$0.18 per Share. Having considered that (i) the issue of the Consideration Shares and the Convertible Note would enable the Group to finance a significant portion of the Consideration and at the same time limit the amount of immediate cash outlay of the Group; (ii) Completion shall be conditional upon, among others, the Purchaser and/or the Company having successfully raised from the equity market no less than HK$400,000,000 but not more than HK$480,000,000 by way of placement of new Shares in cash to finance the cash portion of the Consideration; and (iii) the issue of new Shares will strengthen the capital base of the Company, we are of the view that the decrease in net asset value per Share based on the unaudited pro forma financial information of the Enlarged Group as stated above is acceptable.

9.2 Earning prospects

It is stated in the Letter from the Board that it is the intention of the Company to continue with the Waterworks Engineering Business depending on the then business environment and prospects. After Completion, the Group will participate in the mining business. Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and financial results of the Target Group will be consolidated into the Company's consolidated accounts.

For the year ended 31 March 2009, the Group recorded profit attributable to equity holders of approximately HK$6,431,000. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to the Circular, assuming the Acquisition had taken place at the commencement of the financial year ended 31 March 2009, the loss of the pro forma Enlarged Group attributable to the equity holders of the Company for the year ended 31 March 2009 will be approximately HK$1,323,162,000 which mainly arises from (i) the share-based payment included in administrative expenses of the Target Group arising from the Restructuring amounting to US$156.8 million (equivalent to approximately HK$1,218,869,000) as mentioned in the paragraph headed "Information on the Target Company" above; and (ii) the annual finance cost of the imputed interest of approximately HK$31,253,000 in respect of the Promissory Note, and approximately HK$69,598,000 in respect of the Convertible Note. We note that the above share-based payment as well as the imputed interests on the Promissory Note and the Convertible Note are non-cash expenses. We also understand from the Directors that such share-based payment will not occur in future financial periods and both the Promissory Note and the Convertible Note are in fact non-interest bearing.

We have discussed with the Company its proposed business development plan on the Target Group and understand that the Company has formulated steps to commence the production plan in relation to the TNE Mine. As set out in the Letter from the Board, as at the Latest Practicable Date, TNE has commenced the initial site formation work study on the TNE Mine and intends to outsource its mining operation to professional mining contractors. As a result, the proposed mode of operation should reduce the expected initial capital expenditure and speed up the production plan of the TNE Mine in this regard. As advised by the Directors, the Target Group is currently in negotiations with an international project development and contracting company, which has extensive experience in contract mining, in relation to developing the mining work plan for the TNE Mine. We also understand from the Directors that according to the proposed project schedule, it is expected that a mining plan for the TNE Mine will be developed by June 2010 and mining operations on the TNE Mine will commence thereafter. Given that the existing Directors do not have relevant experience in the mining business and they will continue to be responsible for the development of the Waterworks Engineering Business, the Company has agreed to allow the Vendors to appoint new Directors, up to four persons, for the purposes of managing and developing the mining business of the Target Group. The Vendors intend to nominate Mr. Lim Siong Dennis, Mr. Wong Tak Chung Andrew and two professional experts in the fields of exploration and mining of natural resources as new Directors. As mentioned in the Letter from the Board, Mr. Lim Siong Dennis and Mr. Wong Tak Chung Andrew are directors of the Target Company and are hence familiar with the business of the Target Group. As at the Latest Practicable Date, the Vendors have also identified Mr. Enebish Burenkhuu, who has unique and extensive experience in the natural resources field and mining exploration works in Mongolia as one of the proposed Directors. The Vendors are still in the course of finalising the remaining suitable candidate for the nomination to be a Director. Details of the biographies of Mr. Lim Siong Dennis, Mr. Wong Tak Chung Andrew and Mr. Enebish Burenkhuu are set out in the section headed “Proposed new Directors” in the Letter from the Board. As set out in the Letter from the Board, apart from the new Directors to be nominated by the Vendors who are expected to have relevant experience in the mining business, the Company is in the process of seeking competent staff with appropriate qualification and experience in the management of exploration and mining business. As mentioned in the Letter from the Board, as at the Latest Practicable Date, the number of people employed by the Target Group and working on the TNE Mine was approximately 26 which is expected to increase to approximately 100 when the TNE Mine is running at production of two million tonnes of coal in 2011.

We note from the Letter from the Board that it is estimated that TNE will start generating revenue in late 2010 with an initial output of approximately 300,000 tonnes in the year. Based on the initial production plan, it is expected that the annual production capacity of the TNE Mine will be approximately 2 million tonnes in 2011 and will increase to approximately 2.5 million to 3.5 million tonnes from 2012 to 2014. We understand from the Company that the coal to be mined from the TNE Mine will primarily be sold to domestic customers, such as power plants, low pressure furnace operations and domestic households in Mongolia. Nevertheless, the Group would consider expanding its business to the export market in the future should suitable opportunities arise. As advised by the Directors, as at Latest Practicable Date, TNE has entered into memoranda of understanding with certain potential customers for the supply of coal from the TNE Mine of over four million tonnes. In light of the positive outlook of the coal industry and the planned production of the TNE Mine in late 2010, we concur with the Directors’ view that the Acquisition would provide an opportunity for the Group to broaden its source of income but the quantification of such income will depend on the future performance of the Target Group.

9.3 Working capital

We note from the Letter from the Board that the costs incurred by the Company in connection with the Placing are estimated to be approximately HK$6 million. The working capital position of the Group will be strengthened as a result of the increase in its cash and bank balances from the net proceeds from the Placing estimated to be in the range from approximately HK$450 million to approximately HK$474 million (depending on the actual number of Placing Shares). After utilising HK$200 million as payment for part of the Consideration as set out in the paragraph headed "Reasons for the Placing and use of proceeds" in the section headed "The Placing" in the Letter from the Board, the Group's working capital will increase by approximately HK$250 million to approximately HK$274 million (depending on the actual number of Placing Shares).

As set out in the sub-paragraph headed "TNE Mine" under paragraph (5) headed "Proposed business development plan on the Target Group" in the section headed "Information on the Target Group" in the Letter from the Board, the remaining balances of the net proceeds from the Placing will be used as to approximately HK$93 million for the capital expenditure and funding requirement for the TNE Mine in 2010, approximately HK$54.3 million for the geological and exploration work on the Other Mines in 2010, and the remaining balance for the capital requirement for the TNE Mine in 2011.

The Directors are of the opinion that taking into account the net proceeds from the Placing and the funds to be generated by the mining business of TNE, the Enlarged Group has sufficient working capital for the mining business of TNE in the absence of unforeseeable circumstances. We have discussed with the Directors the assumptions they used in arriving at the cash flow forecast in relation to TNE prepared by the Company (the "Cash Flow Forecast") and accept the reasonableness of such assumptions used. Having considered that (i) part of the net proceeds from the Placing will be used to fund the working capital requirement for the mining operation of TNE; and (ii) in view of the reasonableness of the assumptions used in arriving at the Cash Flow Forecast, we concur with the Directors' view that the Enlarged Group has sufficient working capital for the mining business of TNE in the absence of unforeseeable circumstances.

9.4 Gearing ratio

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to the Circular, the gearing ratio (being the ratio of total liabilities over total assets) increased from approximately 18.0% for the Group as at 30 September 2009 to approximately 45.6% for the unaudited pro forma Enlarged Group mainly as a result of the issue of the Promissory Note and the Convertible Note. Having considered that the Acquisition would provide an opportunity for the Group to broaden its source of income as mentioned above, we are of the view that the increase in gearing ratio is acceptable.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the Acquisition Agreement is on normal commercial terms, in the ordinary and usual course of business, 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, we would recommend the Independent Shareholders, and advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Shenyin Wanguo Capital (H.K.) Limited
Tanny Chau
Director

1. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the consolidated financial information of the Group for the three years ended 31 March 2009 and the six months ended 30 September 2008 and the six months ended 30 September 2009, as extracted from the relevant annual reports and interim report of the Company.

(i) Consolidated Income Statement

	For the year ended 31 March			Six months ended 30 September	
	2009	**2008**	**2007**	**2009**	**2008**
				(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	660,870	648,475	519,944	278,478	387,355
Cost of revenue	(591,429)	(564,664)	(439,725)	(266,249)	(350,436)
Gross profit	69,441	83,811	80,219	12,229	36,919
Other income and gains	7,312	6,845	1,575	72	1,715
Distribution and selling expenses	(2,936)	(629)	–	(278)	(1,822)
Administrative expenses	(59,054)	(52,890)	(35,371)	(19,852)	(28,087)
Operating profit	14,763	37,137	46,423	(7,829)	8,725
Finance costs	(6,566)	(6,511)	(4,453)	(829)	(3,913)
Profit before income tax	8,197	30,626	41,970	(8,658)	4,812
Income tax expense	(1,806)	(5,741)	(7,654)	–	(734)
Profit for the year	6,391	24,885	34,316	(8,658)	4,078
Dividends	–	7,432	10,426	–	–
	HK cents	*HK cents*	*HK cents*	*HK cents*	*HK cents*
Earnings per share					
– Basic	0.713	2.845	5.362	(1.08)	0.44
– Diluted	0.711	2.796	5.361	N/A	N/A

(ii) Consolidated Balance Sheet

	As at 31 March 2009	2008	2007	As at 30 September 2009 (Unaudited)
	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	36,585	107,126	29,333	49,885
Prepaid land lease payments	143	22,071	–	143
Retention receivables	16,285	6,157	4,706	10,964
Pledged bank deposit	5,000	5,000	5,000	5,000
Prepayments for investments	3,657	6,841	–	–
	61,670	147,195	39,039	65,992
Current assets				
Inventories	–	68	–	6,776
Amounts due from customers of contract works	405,609	393,966	236,348	240,699
Trade and other receivables	53,755	35,266	50,871	69,036
Pledged bank deposits	27,297	23,936	19,229	27,351
Cash and cash equivalents	63,757	172,884	11,461	49,174
	550,945	626,120	317,909	393,575
Current liabilities				
Amounts due to customers of contract works	2,541	3,707	–	–
Trade and other payables	63,873	65,053	59,458	55,811
Borrowings	144,134	209,803	108,593	7,334
Provision for tax	–	680	3,585	–
	210,548	279,243	171,636	63,145
Net current assets	340,397	346,877	146,273	330,430
Total assets less current liabilities	402,067	494,072	185,312	396,422
Non-current liabilities				
Other payables	–	13,724	–	–
Borrowings	15,201	39,467	21,493	15,677
Deferred tax	3,684	3,043	3,067	3,684
	18,885	56,234	24,560	19,361
Net assets	383,182	437,838	160,752	377,061
EQUITY				
Share capital	40,049	46,539	32,000	40,124
Proposed final dividend	–	7,432	10,426	–
Reserves	342,831	383,867	118,326	336,654
Total equity	383,182	437,838	160,752	377,061

2. AUDITED FINANCIAL STATEMENTS

Set out below is the audited consolidated income statement, consolidated balance sheet, balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and notes to the financial statements of the Group as extracted from the annual report of the Company for the year ended 31 March 2009. References to page number in this section are to the page numbers of such annual report of the Company.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 March

	Notes	2009 HK$'000	2008 HK$'000
Revenue	5	660,870	648,475
Cost of revenue		(591,429)	(564,664)
Gross profit		69,441	83,811
Other income and gains	5	7,312	6,845
Distribution and selling expenses		(2,936)	(629)
Administrative expenses		(59,054)	(52,890)
Operating profit	7	14,763	37,137
Finance costs	8	(6,566)	(6,511)
Profit before income tax		8,197	30,626
Income tax expense	9	(1,806)	(5,741)
Profit for the year		6,391	24,885
Attributable to:			
Equity holders of the Company	10	6,431	24,885
Minority interests		(40)	–
		6,391	24,885
Dividend	11	–	7,432
Earnings per share	12	HK cents	HK cents
– Basic		0.713	2.845
– Diluted		0.711	2.796

CONSOLIDATED BALANCE SHEET
As at 31 March

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	36,585	107,126
Prepaid land lease payments	15	143	22,071
Retention receivables	20	16,285	6,157
Pledged bank deposit	21	5,000	5,000
Prepayments for investments	17	3,657	6,841
		61,670	147,195
Current assets			
Inventories	18	–	68
Amounts due from customers of contract works	19	405,609	393,966
Trade and other receivables, prepayments and deposits	20	53,755	35,266
Tax recoverable		527	–
Pledged bank deposits	21	27,297	23,936
Cash and cash equivalents	22	63,757	172,884
		550,945	626,120
Current liabilities			
Amounts due to customers of contract works	19	2,541	3,707
Trade and other payables	23	63,873	65,053
Borrowings	24	144,134	209,803
Provision for tax		–	680
		210,548	279,243
Net current assets		340,397	346,877
Total assets less current liabilities		402,067	494,072

CONSOLIDATED BALANCE SHEET
As at 31 March

	Notes	2009 HK$'000	2008 HK$'000
Non-current liabilities			
Other payables		–	13,724
Borrowings	24	15,201	39,467
Deferred tax	25	3,684	3,043
		18,885	56,234
Net assets		383,182	437,838
EQUITY			
Share capital	26	40,049	46,539
Proposed final dividend	11	–	7,432
Reserves	28	342,831	383,867
Equity attributable to equity holders of the Company		382,880	437,838
Minority interests		302	–
Total equity		383,182	437,838

BALANCE SHEET
As at 31 March

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	16	136,162	79,857
Current assets			
Prepayments and other receivables		608	892
Amounts due from subsidiaries	16	213,680	175,163
Cash and cash equivalents	22	568	139,622
		214,856	315,677
Current liabilities			
Other payables and accruals		872	666
Provision for tax		692	281
Amounts due to subsidiaries	16	6,661	2,171
		8,225	3,118
Net current assets		206,631	312,559
Net assets		342,793	392,416
EQUITY			
Share capital	26	40,049	46,539
Proposed final dividend	11	–	7,432
Reserves	28	302,744	338,445
Total equity		342,793	392,416

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2009

	Equity attributable to equity holders of the Company										
	Share capital	Share premium*	Merger reserve*	Share option reserve*	Capital redemption reserve*	Translation reserve*	Retained profits*	Proposed final dividend	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*	*HK$'000*
At 1 April 2007	32,000	12,010	13,805	3,282	–	–	89,229	10,426	160,752	–	160,752
Exchange differences arising on translation of foreign operations/Net income recognised directly in equity	–	–	–	–	–	2,893	–	–	2,893	–	2,893
Profit for the year	–	–	–	–	–	–	24,885	–	24,885	–	24,885
Total recognised income and expense for the year	–	–	–	–	–	2,893	24,885	–	27,778	–	27,778
Dividend paid	–	–	–	–	–	–	–	(10,448)	(10,448)	–	(10,448)
Adjustment for 2007 final dividend	–	–	–	–	–	–	(22)	22	–	–	–
Share options granted	–	–	–	5,348	–	–	–	–	5,348	–	5,348
Share options forfeited	–	–	–	(88)	–	–	88	–	–	–	–
Shares issued upon exercise of share options	1,878	20,094	–	(3,517)	–	–	–	–	18,455	–	18,455
Issue of new shares	12,800	234,240	–	–	–	–	–	–	247,040	–	247,040
Share issue expenses	–	(9,552)	–	–	–	–	–	–	(9,552)	–	(9,552)
Repurchase of shares	(139)	(1,396)	–	–	139	–	(139)	–	(1,535)	–	(1,535)
Proposed final dividend	–	–	–	–	–	–	(7,432)	7,432	–	–	–
At 31 March 2008 and 1 April 20008	46,539	255,396	13,805	5,025	139	2,893	106,609	7,432	437,838	–	437,838
Exchange difference arising on translation of foreign operations	–	–	–	–	–	1,270	–	–	1,270	–	1,270
Transfer to profit or loss on disposal of subsidiaries *(note 30)*	–	–	–	–	–	(3,646)	–	–	(3,646)	–	(3,646)
Net expenses recognised directly in equity	–	–	–	–	–	(2,376)	–	–	(2,376)	–	(2,376)
Profit for the year	–	–	–	–	–	–	6,431	–	6,431	(40)	6,391
Total recognised income and expense for the year	–	–	–	–	–	(2,376)	6,431	–	4,055	(40)	4,015
Acquisition of interests in a subsidiary	–	–	–	–	–	–	–	–	–	342	342
Dividend paid	–	–	–	–	–	–	–	(7,432)	(7,432)	–	(7,432)
Share-based compensation *(note 27)*											
Share options granted in previous years	–	–	–	198	–	–	–	–	198	–	198
Share options granted in current year	–	–	–	2,929	–	–	–	–	2,929	–	2,929
Share options forfeited *(note 27)*	–	–	–	(343)	–	–	343	–	–	–	–
Repurchase of shares *(note 26 (c))*	(6,490)	(48,218)	–	–	6,490	–	(6,490)	–	(54,708)	–	(54,708)
At 31 March 2009	40,049	207,178	13,805	7,809	6,629	517	106,893	–	382,880	302	383,182

* The total of these balances represents reserves in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2009

	2009	2008
	HK$'000	*HK$'000*
Cash flows from operating activities		
Profit before income tax	8,197	30,626
Adjustments for:		
Amortisation of prepaid land lease payments	358	115
Depreciation of property, plant and equipment	9,864	8,462
Interest income	(871)	(3,854)
Interest expenses	6,566	6,511
Impairment of prepayments for investments	3,184	–
Excess over the cost of business combination *(note 29)*	(945)	(2,683)
Exchange differences	275	462
(Gain)/Loss on disposal of property, plant and equipment	(96)	228
Equity-settled share-based compensation	3,127	5,348
Gain on disposal of subsidiaries *(note 30)*	(3,416)	–
Operating profit before working capital changes	26,243	45,215
(Increase)/Decrease in inventories	(356)	554
Change in net amounts due from/to customers of contract works	(12,809)	(153,911)
(Increase)/Decrease in trade and other receivables, prepayments and deposits (including retention receivables)	(40,560)	24,139
Increase/(Decrease) in trade and other payables	11,696	(5,454)
Cash used in operations	(15,786)	(89,457)
Interest paid on bank loans and other borrowings	(6,388)	(6,463)
Interest received	871	3,854
Income tax paid		
Hong Kong profits tax	(1,956)	(8,593)
Mainland China tax	(29)	–
Net cash used in operating activities	(23,288)	(100,659)

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 March 2009

	2009	2008
	HK$'000	*HK$'000*
Cash flows from investing activities		
Increase in pledged bank deposits	(3,361)	(4,707)
Payments to acquire property, plant and equipment	(8,874)	(9,314)
Proceeds from disposal of property, plant and equipment	882	209
Prepayments for investments	–	(6,841)
Net cash outflow on business combination *(note 29)*	(668)	(29,041)
Net cash outflow on disposal of subsidiaries *(note 30)*	(5,601)	–
Net cash used in investing activities	(17,622)	(49,694)
Cash flows from financing activities		
Net proceeds from issuance of shares	–	255,943
Payments for repurchase of shares	(948)	(1,535)
New borrowings raised	225,097	259,134
Repayment of borrowings	(279,917)	(186,142)
Capital element of finance lease payments	(4,621)	(4,756)
Interest element of finance lease payments	(178)	(543)
Dividend paid	(7,432)	(10,448)
Net cash (used in)/generated from financing activities	(67,999)	311,653
Net (decrease)/increase in cash and cash equivalents	(108,909)	161,300
Cash and cash equivalents at beginning of financial year	172,884	11,461
Exchange differences	(218)	123
Cash and cash equivalents at end of financial year	63,757	172,884

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

1. GENERAL INFORMATION

Ming Hing Waterworks Holdings Limited (the "**Company**") was incorporated in the Cayman Islands on 25 May 2004 as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of its principal place of business is Units 1809-1812, Telford House, 16 Wang Hoi Road, Kowloon Bay, Hong Kong.

The Company and its subsidiaries (collectively, the "**Group**") are principally engaged in the provision of maintenance and construction works on civil engineering contracts in respect of waterworks engineering, road works and drainage and slope upgrading for the public sector in Hong Kong, as well as the provision of water supply services in Mainland China.

In the opinion of the directors, the ultimate holding company of the Company is Robinhoods Development Limited, which was incorporated in the British Virgin Islands.

The financial statements on pages 41 and 139 have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (including all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange.

The financial statements for the year ended 31 March 2009 were approved for issue by the board of directors on 17 July 2009.

2. ADOPTION OF NEW AND REVISED HKFRSs

2.1 Impact of new and revised HKFRSs which are effective during the year

During the year, the Group has adopted, for the first time, the following amendments and interpretations to HKFRSs which are effective during the current financial year:

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new and revised HKFRSs did not result in significant changes in the Group's accounting policies and had no significant financial impact on the Group's financial statement. Accordingly, no prior period adjustment is required.

2. ADOPTION OF NEW AND REVISED HKFRSs *(Continued)*

2.2 Impact of new and revised HKFRSs which are issued but are not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued at the date of authorisation of these financial statements but not yet effective in the current financial year:

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 1, HKAS 32, HKAS 39 & HKFRS 7 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
HKAS 39 (Amendment)	Eligible Hedged Items [2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards [2]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controller Entity and an Associate [1]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations [1]
HKFRS 3 (Revised)	Business Combinations [2]
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments [1]
HKFRS 8	Operating Segments [1]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives [5]
HK(IFRIC) – Int 13	Customer Loyalty Programmes [3]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate [1]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation [4]
HK(IFRIC) – Int 17	Distributions of Non-Cash Assets to Owners [2]
HK(IFRIC) – Int 18	Transfer of Assets from Customers [6]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2008 [7]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009 [8]

Notes:

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

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

3 Effective for annual periods beginning on or after 1 July 2008

4 Effective for annual periods beginning on or after 1 October 2008

5 Effective for annual periods ending on or after 30 June 2009

6 Effective for transfers of assets from customers received on or after 1 July 2009

7 Generally effective for annual periods beginning on or after 1 January 2009 unless otherwise stated in the specific HKFRS

8 Generally effective for annual periods beginning on or 1 January 2010 unless otherwise stated in the specific HKFRS

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement.

2. ADOPTION OF NEW AND REVISED HKFRSs *(Continued)*

2.2 Impact of new and revised HKFRSs which are issued but are not yet effective *(Continued)*

HKAS 1 (Revised) Presentation of financial statements

The amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or result of the Group but will give rise to additional disclosures.

HKFRS 3 (Revised) Business Combinations

The standard is applicable for business combinations occurring in reporting period beginning on or after 1 July 2009 and will be applied prospectively. The new standard introduce changes to the accounting requirements for business combinations, but still requires the use of the purchase method and will have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

HKFRS 8 Operating Segments

This standard replaces HKAS 14 "Segment reporting". The accounting policy for identifying segments could be based on internal management reporting information that is regularly reviewed by the Group's chief operating decision maker. In contrast HKAS 14 requires the Group to identify two sets of segments (business and geographical) based on the risks and rewards of separating segments. Management anticipate that the adoption of this standard will not affect the identified operating segments of the Group. The new standard will also require a different format of disclosures which would be based on information provided internally to the chief operating decision marker.

HKAS 27 (Revised) Consolidated and Separate Financial Statements

The revised standard introduces changes to the accounting requirements for the loss of control of a subsidiary and for the changes in the Group's interest in subsidiaries. Management anticipates that the standard would not result in materials impact on the Group's financial statements.

The Group is in the process of assessing the impact of the other new or revised HKFRSs upon initial application but is not yet in a position to state whether they would have materials impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

3.1 Basis of preparation

These financial statements have been prepared under the historical cost convention. The measurement bases are fully described in the accounting policies below.

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

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries *(note 3.3)* made up to 31 March each year. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All material intercompany transactions, balances and unrealised gains on transactions within the Group are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

Business combinations are accounted for using the purchase method of accounting. This method involves allocating the cost of a business combination to the fair value of the identifiable assets acquired and liabilities including contingent liabilities assumed at the date of the business combination. The cost of business combination is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Basis of consolidation *(Continued)*

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

3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control, directly or indirectly, the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

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

3.4 Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interests in the fair value of the identifiable assets acquired and liabilities including contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is initially recognised in the consolidated balance sheet as an asset at cost and subsequently measured at cost less any impairment losses. Goodwill is reviewed for impairment annually at the balance sheet date or more frequently if events or change in circumstances indicate that the carrying value of goodwill may be impaired.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.5 Revenue and other income recognition

Revenue and other income is recognised when it is probable that the economic benefits will flow to the Group and when the income can be measured reliably on the following bases:

(i) When the outcome of civil engineering contracts can be estimated reliably, revenue from maintenance or construction works on civil engineering contracts is recognised according to the percentage of completion of individual contract at the balance sheet date *(note 3.10)*.

(ii) Revenue arising from water supply is recognised based on the volume of water supplied as recorded by meters read during the year.

(iii) Water supply related installation income is recognised when the relevant installation work is performed.

(iv) Interest income is recognised on a time-proportion basis by reference to the principal outstanding and at the effective interest rate applicable.

3.6 Property, plant and equipment

Property, plant and equipment are stated at cost, which comprise purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use, less accumulated depreciation and any impairment losses *(note 3.7)*. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided to write off the cost of each item of property, plant and equipment less its residual value, if applicable over its estimated useful lives. Buildings and water pipelines are depreciated using straight-line method at the annual rates of 3.17% and 4.85% respectively. Other items of property, plant and equipment are depreciated using reducing balance method at the following rates per annum:

Furniture, fixtures and equipment	20%
Leasehold improvements	30%
Motor vehicles	20%
Machinery and tools	30%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.6 Property, plant and equipment *(Continued)*

Residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the item and is recognised in the income statement.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

3.7 Impairment of non-financial assets

Property, plant and equipment, prepaid land lease payments and investments in subsidiaries are tested for impairment whenever there are indications that the assets' carrying amount may not be recoverable.

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

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

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

A reversal of such impairment is credited to income statement in the period in which it arises unless that asset is carried at revalued amount, in which case the reversal of impairment loss is accounted for in accordance with the relevant accounting policy for the revalued amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.8 Leases

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.

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership to the Group 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.

Operating leases – as lessee

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

Prepaid land lease payments represent up-front payments to acquire the land use rights or leasehold land. They are stated at cost less accumulated amortisation and impairment losses *(note 3.7)*. Amortisation is calculated on a straight-line basis over the lease term except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

Finance leases – as leases

Where the Group acquires the right to use the assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present values 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 obligation under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to income statement 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.9 Financial assets

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

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognised on trade date. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction cost. Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

The Group's financial assets mainly comprise loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost. Gain and losses are recognised in the income statement when the loans and receivables are decrecognised or impaired as well as through the amortisation process.

At each balance sheet date, loans and receivables are reviewed to determine whether there is any objective evidence impairment. Objective evidence of impairment includes observable date that come to the attention of the Group about one or more of the followings loss events:

– significant financial difficulty of the debtors;

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

– it becoming probable that the debtors will enter bankruptcy or other financial reorganisation; and

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

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.9 Financial assets *(Continued)*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the assets is reduced through the use of an allowance account. The amount of impairment loss is recognised in the income statement of the period in which the impairment occurs. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in subsequent period, the amount of the impairment loss decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is revised by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

3.10 Civil engineering contracts

When the outcome of civil engineering contracts can be estimated reliably, revenue from maintenance or construction works on civil engineering contracts and the associated contract costs are recognised according to the stage of completion of individual contract at the balance sheet date. The stage of completion is determined using percentage of completion method by reference to the survey of work performed or contract costs incurred to date, depending on nature of the contract.

When the outcome of civil engineering contracts cannot be estimated reliably, no profit is recognised and revenue is recognised only to the extent of contract costs incurred that would probably be recoverable.

Provisions are made for any foreseeable losses when they are identified and recognised immediately as an expense in the income statement. Variations in contract work, claims and incentive payments are recognised as revenue when it is propable that they will be approved by customers and they can be measured reliably.

Amounts due from customers of contract works represent contract costs incurred plus recognised profits less progress billings and any foreseeable losses. Amounts due to customers of contract works represent the excess of progress billings over contract costs incurred plus recognised profits less any foreseeable losses. Costs mainly comprise materials, direct labour and sub-contractors' fees. Costs incurred during the year in connection with future activity of a contract are recognised as amounts due from customers of contract works. Amounts billed for works performed but not yet paid by the customers are included in the balance sheet under "trade and other receivables, prepayments and deposits".

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.10 Civil engineering contracts *(Continued)*

Retentions, representing amounts of progress billings which are payable to sub-contractors or receivables from customers when conditions specified in the contracts undertaken are satisfied, are included in the balance sheet under "trade and other payables" and "trade and other receivables, prepayments and deposits" respectively.

3.11 Foreign currencies

The financial statements are presented in Hong Kong Dollars ("**HK$**"), which is also the functional currency of the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined.

The functional currencies of certain entities of the Group are currencies other than HK$. For the purpose of the consolidated financial statements, assets and liabilities of those entities at the balance sheet date are translated into HK$ at exchange rate prevailing on the balance sheet date. Income and expense items are translated into HK$ at the average exchange rate for the year. The resulting exchange differences are dealt with in the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the foreign entity is disposed of.

3.12 Income taxes

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised directly in equity.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Income taxes *(Continued)*

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

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

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date. Changes in deferred tax assets or liabilities are recognised in the income statement or in equity if they relate to items that are charged or credited directly to equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3.13 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of cash flow statement presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.14 Employee benefits

Defined contribution plan

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

The employees of the Group's subsidiaries which operate in the Mainland China are required to participate in a central pension scheme operated by the local municipal governments. These subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Short-term employee benefits

Short-term employee benefits are recognised when they accrue to employees. In particular, a provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

Share-based employee compensation

Details about the accounting policy on share-based compensation to employee are set out in note 3.15 below.

3.15 Share-based compensation

The Group operates a share option scheme for the purpose of recognising and acknowledging the contributions that the eligible participants have made to the Group. Eligible participants including employees (including directors), customers, suppliers, agents, partners, consultants, advisers or shareholders of or contractors to the Group or any affiliate, receive remuneration in the form of share-based compensation, whereby eligible participants render services as consideration for equity instrument (i.e. equity-settled transactions).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date the options are granted excluding the impact of any non-market vesting conditions. The cost of equity-settled transactions with parties other than employees is measured by reference to the fair value of the goods or services provided.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.15 Share-based compensation *(Continued)*

The cost of equity-settled transactions is recognised as an expense in income statement with a corresponding increase in share option reserve within equity. If vesting periods or other vesting conditions apply, the expense is allocated using straight-line basis over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is indication that the number of share options expected to vest differs from previous estimates. Any adjustment to the fair value recognised in prior years is charged/credited to the income statement for the year of the review with a corresponding adjustment to the share option reserve.

On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting that relate to market condition (which is treated as vesting irrespective of whether or not the market condition is satisfied).

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

3.16 Financial liabilities

The Group's financial liabilities comprise trade and other payables, borrowings and finance lease liabilities. Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.16 Financial liabilities *(Continued)*

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently stated at amortised costs. Any difference between the proceeds (net of transaction cost) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate.

Finance lease liabilities are measured at initial value less the capital element of lease repayments *(note 3.8)*.

All interest related charges are recognised as an expense in finance costs in the income statement.

3.17 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the effect of discounting is material, provisions are stated at the present value of the expenditure expected to settle the obligation. The increase in the discount present value amount arising from the passage of time is included in finance costs in the income statement of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated 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 uncertain events not wholly with the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3.18 Financial guarantee issued

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.18 Financial guarantee issued *(Continued)*

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 3.17 if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

3.19 Borrowing costs

All borrowing costs are expensed as incurred.

3.20 Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within equity, until they have been approved by the shareholders in a general meeting. When these dividends are approved and declared, they are recognised as a liability.

3.21 Equity instruments

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

Repurchases of the Company's own equity instruments is recognised and deducted directly in equity. On repurchase of the Company's own shares, the amount equivalent to the par value of the shares repurchased is transferred from retained profits to capital redemption reserve. No gain or loss is recognised in income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3.22 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 intermediate, to control the Group or exercise significant influence over the Group in making financial and operating 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 jointly venture in which the Group is a venturer;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.22 Related parties *(Continued)*

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

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

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

3.23 Segment reporting

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

In respect of business segment reporting, unallocated income and expenses include corporate income and expenses and other income and expenses that cannot be allocated on a reasonable basis to the reportable segments. Segment assets consist primary of property, plant and equipment, prepaid land leases payments, receivables, pledged deposits and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and borrowings incurred for financing purpose.

Capital expenditure comprises additions to property, plant and equipment and prepaid land leases payments including additions resulting from acquisition through business combination.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

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

4.1 Civil engineering contracts

Revenue from maintenance and construction works on civil engineering contracts is recognised according to the percentage of completion of individual contract which requires the estimation of contract costs and gross profit margin of each contract. Contract costs and gross profit margin of individual contract is determined based on budget of the contract which was prepared by the management of the Group. In order to ensure that the total estimated contract costs are accurate and up-to-date such that gross profit margin can be estimated reliably, management reviews the costs incurred to date and costs to completion frequently, in particular in the case of costs over-runs and the variation orders from customers, and revise the estimated contract costs where necessary.

If the actual contract costs and the gross profit margin differs from the management's estimates, the contract revenue and gross profit to be recognised in the next financial year will be adjusted accordingly.

4.2 Impairment of receivables

Impairment of receivables is determined by management based on the credit history of its customers and the current market condition. It could change significantly as a result of changes in the financial position of the customers. Management would re-assess the amount of impairment for receivables, if any, at each balance sheet date.

4.3 Depreciation of property, plant and equipment

Property, plant and equipment are depreciated in according with the accounting policy stated in note 3.6. The estimate useful lives of property, plant and equipment reflect the management's estimation of the periods during which the Group intends to derive future economic benefits from the use of these assets.

4.4 Estimates of current tax and deferred tax

The Group is subject to taxation in various jurisdictions. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue, which is also the Group's turnover, and other income and gains is as follows:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Revenue		
Contract revenue from maintenance and construction works on civil engineering contracts	630,749	640,708
Revenue from water supply services	19,212	4,762
Water supply related installation fee	10,909	3,005
	660,870	648,475
Other income and gains		
Bank interest income	871	3,854
Compensation received *(note)*	1,077	–
Excess over the cost of business combination *(note 29)*	945	2,683
Gain on disposal of property, plant and equipment	96	–
Gain on disposal of subsidiaries *(note 30)*	3,416	–
Sundry income	907	308
	7,312	6,845
Total income	668,182	655,320

Note:

During the current financial year, the Group received an amount of HK$1,077,000 from the government of the People's Republic of China (the "**PRC**") as compensation for the loss arising from the snow storm occurred in last financial year.

6. SEGMENT INFORMATION

For management purposes, the Group is currently organised into two operating divisions — waterworks engineering contracting business and water supply business. These divisions form the basis on which the Group reports its primary segment information.

The principal activities of the operating divisions are as follows:

(i) "Waterworks engineering contracting business" segment involves the provision of maintenance and construction works on civil engineering contracts in respect of waterworks engineering, road works and drainage and slope upgrading for the public sector in Hong Kong; and

(ii) "Water supply business" segment involves the provision of water supply services and water supply related installation services in Mainland China.

The Group determines geographical segments as its secondary reporting format. In determining the geographical segments, revenue is attributed to the segments based on the location of customers, and assets and capital expenditure are attributed to the segments based on the location of the assets.

6. SEGMENT INFORMATION *(Continued)*

Business segments

	Waterworks engineering contracting business		Water supply business		Consolidated	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE AND RESULTS						
Segment revenue*	630,749	640,708	30,121	7,767	660,870	648,475
Segment results	18,772	40,185	5,841	3,684	24,613	43,869
Corporate and other unallocated income and expenses					(9,850)	(6,732)
					14,763	37,137
Finance costs					(6,566)	(6,511)
Profit before income tax					8,197	30,626
Income tax expenses					(1,806)	(5,741)
Profit for the year					6,391	24,885
FINANCIAL POSITIONS						
Segment assets	557,438	481,157	17,519	115,867	574,957	597,024
Corporate and other unallocated assets					37,658	176,291
Total assets					612,615	773,315
Segment liabilities	68,081	54,170	24	27,648	68,105	81,818
Corporate and other unallocated liabilities					161,328	253,659
Total liabilities					229,433	335,477
OTHER INFORMATION						
Capital expenditure	3,314	9,796	15,634	74,005	18,948	83,801
Depreciation and amortisation	6,776	7,497	3,446	1,080	10,222	8,577
Excess over the cost of business combination	–	–	945	2,683	945	2,683
Equity-settled share-based compensation	3,127	5,348	–	–	3,127	5,348

* There were no inter-segment sales between different business segments for the years ended 31 March 2009 and 2008.

6. SEGMENT INFORMATION *(Continued)*

Geographical segments

	Hong Kong		Mainland China		Consolidated	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	630,749	640,708	30,121	7,767	660,870	648,475
Other segment information						
Segment assets	595,096	657,448	17,519	115,867	612,615	773,315
Capital expenditure	3,314	9,796	15,634	74,005	18,948	83,801

7. OPERATING PROFIT

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Operating profit is arrived at after charging/(crediting):		
Amortisation of prepaid land lease payments	358	115
Depreciation of property, plant and equipment		
– owned assets	8,123	6,147
– leased assets	1,741	2,315
	9,864	8,462
Staff costs (including directors' emoluments)		
– salaries, allowances and benefits in kind	83,600	85,177
– retirement benefits scheme contributions	1,652	3,409
– equity-settled share-based compensation *(note 27)*	886	1,709
	86,138	90,295
Operating lease charges		
– land and buildings	1,382	1,408
– plant and machinery	12,790	8,479
	14,172	9,887
Auditors' remuneration	924	613
(Gain)/Loss on disposal of property, plant and equipment	(96)	228
Impairment of prepayments for investments *(note 17)*	3,184	–
Net foreign exchange loss	147	227

8. FINANCE COSTS

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Interest charges on:		
Bank loans wholly repayable within five years	5,949	5,717
Interest element of finance lease payments	178	543
Other borrowings repayable within five years	439	251
	6,566	6,511

9. INCOME TAX EXPENSE

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Income tax expenses comprise:		
Current tax for the year		
– Hong Kong profits tax	1,791	5,820
– Enterprise income tax	897	88
	2,688	5,908
Over provision in prior years		
– Hong Kong profits tax	(1,009)	(143)
Deferred tax *(note 25)*		
– Attributable to decrease in tax rate	(173)	–
– Others	300	(24)
	127	(24)
Income tax expense	1,806	5,741

9. INCOME TAX EXPENSE *(Continued)*

The Hong Kong SAR Government enacted a reduction in the Profits Tax Rates from 17.5% to 16.5% with effect from the year of assessment 2008/09. Accordingly, the relevant profits tax and deferred tax have been calculated using the new tax rate of 16.5%.

Enterprise Income Tax ("**EIT**") arising from the PRC is calculated according to the relevant laws and regulations in the PRC. The applicable tax rate for the EIT is 25% (2008: 25%).

Income tax expense for the year can be reconciled to the profit before income tax at applicable tax rates as follows:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Profit before income tax	8,197	30,626
Notional tax on profit calculated at the rates applicable to profits in the jurisdiction concerned	894	5,565
Effect on opening deferred tax balance resulting from a decrease in tax rate during the year	(173)	–
Tax effect of non-taxable income	(1,545)	(1,178)
Tax effect of non-deductible expenses	3,172	1,143
Over provision in prior years	(1,009)	(143)
Others	467	354
Income tax expense	1,806	5,741

10. PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit attributable to the equity holders of the Company of HK$6,431,000 (2008: HK$24,885,000), a profit of HK$9,702,000 (2008: HK$9,010,000) has been dealt with in the financial statements of the Company.

11. DIVIDEND

	2009	**2008**
	HK$'000	*HK$'000*
Final dividend proposed after the balance sheet date of nil (2008: HK0.80 cents) per share	–	7,432

Dividend paid and recognised as distributions during the year ended 31 March 2009 amounted to HK$7,432,000 (2008: HK$10,448,000).

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year of HK$6,431,000 (2008: HK$24,885,000) and the weighted average number of ordinary shares in issue during the year of 901,701,000 (2008: 874,772,000).

The calculation of diluted earnings per share is based on the profit for the year of HK$6,431,000 (2008: HK$24,885,000) and the weighted average number of ordinary shares in issue during the year adjusted for the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all outstanding share options of the Company into ordinary shares which is calculated as follows:

	2009	**2008**
Weighted average number of ordinary shares in issue during the year used in the calculation of basic earnings per share	901,701,000	874,772,000
Effect of dilutive potential ordinary shares in respect of the outstanding share options *(note 27)*	3,029,000	15,217,000
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	904,730,000	889,989,000

13. DIRECTORS' AND SENIOR MANAGEMENTS' EMOLUMENTS

(a) Directors' emoluments

	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Equity-settled share-based compensation	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2009					
Executive Directors					
Mr. Yuen Chow Ming	–	1,034	–	–	1,034
Mr. Yuen Wai Keung	–	1,034	12	–	1,046
Mr. So Yiu Cheung	–	1,034	12	–	1,046
Mr. Cheung Chi Man, Dennis *(note (i))*	–	525	6	366	897
Independent Non-Executive Directors					
Professor Leung Yee Tak	120	–	–	–	120
Mr. Liao Cheung Tin, Stephen *(note (ii))*	13	–	–	–	13
Mr. Wong Lap Shek, Eddie *(note (iii))*	33	–	–	–	33
Mr. Cheung Chi Man, Dennis *(note (i))*	48	–	–	–	48
Ms. Chung Lai Kwok, Elaine *(note (iv))*	90	–	–	–	90
Mr. Sun Bo Quan *(note (v))*	100	–	–	–	100
Mr. Cheng Ka Ming, Martin *(note (vi))*	47	–	–	–	47
	451	3,627	30	366	4,474

13. DIRECTORS' AND SENIOR MANAGEMENTS' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Equity-settled share-based compensation	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2008					
Executive Directors					
Mr. Yuen Chow Ming	–	1,014	–	38	1,052
Mr. Yuen Wai Keung	–	1,014	12	38	1,064
Mr. So Yiu Cheung	–	1,014	12	38	1,064
Independent Non-Executive Directors					
Professor Leung Yee Tak	120	–	–	38	158
Mr. Cheung Chi Man, Dennis	96	–	–	38	134
Ms. Chung Lai Kwok, Elaine	45	–	–	–	45
Mr. Sun Bo Quan	100	–	–	38	138
Dr. Ho Chung Tai, Raymond *(note (vii))*	70	–	–	38	108
	431	3,042	24	266	3,763

Note:

(i) re-designated from an Independent Non-executive Directors to be an Executive Directors on 15 October 2008

(ii) appointed on 20 February 2009

(iii) appointed on 15 October 2008

(iv) resigned on 1 January 2009

(v) resigned on 1 April 2009

(vi) appointed on 1 October 2008 and resigned on 20 February 2009

(vii) resigned on 1 November 2007

No director waived or agreed to waive any emoluments in respect of the years ended 31 March 2009 and 2008.

13. DIRECTORS' AND SENIOR MANAGEMENTS' EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five highest paid individuals in the Group included four (2008: three) directors whose emoluments have been disclosed above. The emoluments paid to the remaining one (2008: two) highest paid, non-director individuals are as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	780	1,608
Retirement benefits scheme contributions	12	20
Equity-settled share-based compensation	30	557
	822	2,185

The aggregate emoluments of the above one (2008: two) highest paid, non-director individual fell within the following bands:

	Number of individuals	
	2009	**2008**
HK$1 – HK$1,000,000	1	1
HK$1,000,001 – HK$1,500,000	–	1
	1	2

During the years ended 31 March 2009 and 2008, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. PROPERTY, PLANT AND EQUIPMENT

The Group	Buildings	Furniture, fixtures and equipment	Leasehold improve-ments	Motor vehicles	Machinery and tools	Water pipelines	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2007								
Cost	–	3,266	3,267	21,627	18,053	–	–	46,213
Accumulated depreciation	–	(1,342)	(1,019)	(6,294)	(8,225)	–	–	(16,880)
Net book amount	–	1,924	2,248	15,333	9,828	–	–	29,333
Net book amount								
At 1 April 2007	–	1,924	2,248	15,333	9,828	–	–	29,333
Translation adjustment	1,763	304	–	9	–	765	50	2,891
Additions	–	3,885	1,589	3,207	1,251	–	28	9,960
Additions through business combination	44,955	7,838	–	255	–	19,543	1,250	73,841
Disposals	–	(103)	–	(334)	–	–	–	(437)
Depreciation	(377)	(967)	(828)	(3,238)	(2,777)	(275)	–	(8,462)
At 31 March 2008	46,341	12,881	3,009	15,232	8,302	20,033	1,328	107,126
At 31 March 2008								
Cost	46,726	15,195	4,856	24,283	19,304	20,313	1,328	132,005
Accumulated depreciation	(385)	(2,314)	(1,847)	(9,051)	(11,002)	(280)	–	(24,879)
Net book amount	46,341	12,881	3,009	15,232	8,302	20,033	1,328	107,126
Net book amount								
At 1 April 2008	46,341	12,881	3,009	15,232	8,302	20,033	1,328	107,126
Translation adjustment	954	166	–	4	–	361	68	1,553
Additions	–	1,672	331	2,147	316	22	4,554	9,042
Additions through business combination *(note 29)*	1,371	597	–	–	–	6,822	968	9,758
Transfer	–	–	–	–	–	961	(961)	–
Disposal of subsidiaries *(note 30)*	(46,159)	(8,393)	–	(141)	–	(19,594)	(5,957)	(80,244)
Disposals	–	(105)	(368)	(271)	(42)	–	–	(786)
Depreciation	(1,192)	(1,647)	(773)	(2,931)	(2,234)	(1,087)	–	(9,864)
At 31 March 2009	1,315	5,171	2,199	14,040	6,342	7,518	–	36,585
At 31 March 2009								
Cost	1,360	8,139	4,369	25,486	19,569	7,754	–	66,677
Accumulated depreciation	(45)	(2,968)	(2,170)	(11,446)	(13,227)	(236)	–	(30,092)
Net book amount	1,315	5,171	2,199	14,040	6,342	7,518	–	36,585

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

During the year, additions to motor vehicles financed by new finance leases were HK$168,000 (2008: HK$646,000).

As at 31 March 2009, the net book amount of assets held under finance leases included in the net book amount of motor vehicles and machinery and tools amounted to HK$5,995,000 (2008: HK$7,134,000) and HK$1,334,000 (2008: HK$2,193,000) respectively.

The analysis of the net carrying amount of the properties is as follows:

	2009	**2008**
	HK$'000	*HK$'000*
In Mainland China, held under		
– long-term leases	–	2,344
– medium-term leases	1,460	66,538
	1,460	68,882
Representing:		
Buildings	1,315	46,341
Prepaid land lease payments *(note 15)*	145	22,541
	1,460	68,882

15. PREPAID LAND LEASE PAYMENTS

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Carrying amount at 1 April 2008/2007	22,541	–
Translation adjustment	470	857
Addition through business combination *(note 29)*	148	21,799
Disposal of subsidiaries *(note 30)*	(22,656)	–
Amortisation charged	(358)	(115)
Carrying amount at 31 March 2009/2008	145	22,541
Analysed into:		
Non-current portion included in non-current assets	143	22,071
Current portion included in current assets *(note 20)*	2	470
	145	22,541

16. SUBSIDIARIES

	The Company	
	2009	**2008**
	HK$'000	*HK$'000*
Investments in subsidiaries		
Unlisted shares, at cost	136,162	79,857
Amounts due from subsidiaries	213,680	175,163
Amounts due to subsidiaries	6,661	2,171

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

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

Name	Place of incorporation/ registration	Issued and paid up capital	Attributable equity interests held	Principal activities and place of operation
Interests held directly				
Rich Path Holdings Limited	British Virgin Islands	US$1 (ordinary share)	100%	Investment holding in Hong Kong
Interests held indirectly				
Ming Hing Waterworks Engineering Company Limited	Hong Kong	HK$68,800,000 (ordinary shares)	100%	Civil engineering contracting business in Hong Kong
Ming Hing Civil Contractors Limited	Hong Kong	HK$15,000 (ordinary shares)	100%	Civil engineering contracting business in Hong Kong
Dominic Science & Technology Limited	Hong Kong	HK$2,100 (ordinary shares)	100%	Provision of technical support services on civil engineering contracting business in Hong Kong
DST Engineering Supplies Limited	Hong Kong	HK$100 (ordinary shares)	100%	Trading of civil engineering materials in Hong Kong

16. SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries as at 31 March 2009 are as follows: *(Continued)*

Name	Place of incorporation/ registration	Issued and paid up capital	Attributable equity interests held	Principal activities and place of operation
Interests held indirectly *(Continued)*				
DST Pipe Rehab Limited	Hong Kong	HK$100 (ordinary shares)	100%	Inactive
Ming Hing – INFO JV	Hong Kong	N/A	95%	Civil engineering contracting business in Hong Kong
明興自來水(南寧)有限公司 *note (a)*	PRC	US$1,282,343	100%	Water purification processing technology research and development in Mainland China
Ming Hing Waterworks (Qingyuan) Limited	British Virgin Islands	US$100 (ordinary shares)	100%	Investment holding in Hong Kong
Ming Hing Water Treatment Engineering (PRC) Limited	British Virgin Islands	US$100 (ordinary shares)	100%	Inactive
Ming Hing Waterworks (Leizhou) Limited	British Virgin Islands	US$100 (ordinary shares)	100%	Inactive

16. SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries as at 31 March 2009 are as follows: *(Continued)*

Name	Place of incorporation/ registration	Issued and paid up capital	Attributable equity interests held	Principal activities and place of operation
Interests held indirectly *(Continued)*				
Ming Hing Waterworks (Nanning) Limited	British Virgin Islands	US$100 (ordinary shares)	100%	Inactive
Ming Hing Waterworks (Guiping) Limited	British Virgin Islands	US$100 (ordinary shares)	100%	Inactive
清遠市新興自來水淨化有限公司 *note (a)*	PRC	US$1,367,670	100%	Investment holding in Mainland China
清新縣飛來峽發興自來水有限公司	PRC	RMB9,600,000	*note (b)*	Water supply business in Mainland China

Notes:

(a) These companies are registered as wholly foreign owned enterprises under the PRC Law.

(b) The Group has 98.96% interest in the registered capital of the entity and is entitled to share 85% of the profit or loss of the entity.

17. PREPAYMENTS FOR INVESTMENTS

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Deposits paid for potential investments	6,841	6,841
Less: Provision for impairment	(3,184)	–
	3,657	6,841

17. PREPAYMENTS FOR INVESTMENTS *(Continued)*

The balance as at 31 March 2009 comprise the followings:

(a) The amount of RMB2,000,000 (equivalent to approximately HK$2,157,000) represents the deposit paid by the Group in last financial year for the potential formation of an equity joint venture which will be principally engaged in provision of water supply services in Leizhou City, Guangdong Province, the PRC.

(b) The amount of RMB3,000,000 (equivalent to approximately HK$3,184,000) represents the deposit paid by the Group in last financial year in relation to the potential investment in a PRC entity which will be principally engaged in the provision of water supply services in Guangxi Province, the PRC. In light of the increasing uncertainly as to the completion of the acquisition and the recoverability of the aforesaid deposit, the Directors have made full provision for the deposit accordingly.

(c) The amount of HK$1,500,000 represents deposit paid by the Group in last financial year in relation to the potential acquisition of equity interests in certain PRC entities. These entities are principally engaged in the provision of water supply services in Qingyuan City, Guangdong Province, the PRC.

18. INVENTORIES

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Raw materials and supplies – at cost	–	68

19. CIVIL ENGINEERING CONTRACTS

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Costs incurred to date plus recognised profits	1,958,371	1,364,340
Less: Progress billings to date	(1,539,214)	(974,081)
Less: Foreseeable losses	(16,089)	–
	403,068	390,259
Amounts due from customers of contract works	405,609	393,966
Amounts due to customers of contract works	(2,541)	(3,707)
	403,068	390,259

20. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Trade receivables *(note (a))*	27,068	7,956
Retention receivables *(note (b))*	18,487	8,793
Prepaid land lease payments *(note 15)*	2	470
Prepayments and deposits	6,319	8,410
Other receivables *(note (c))*	18,164	15,794
	70,040	41,423
Less: Retention receivables included under non-current assets	(16,285)	(6,157)
	53,755	35,266

Notes:

(a) The ageing analysis of trade receivables (based on invoice date) as at the balance sheet date is as follows:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Within 3 months	27,065	7,658
4 to 6 months	2	140
7 to 9 months	1	90
10 to 12 months	–	17
Over 1 year	–	51
	27,068	7,956

Credit period granted to customers of contract works is normally 30 to 60 days. Application for progress payments of contract works is made on a regular basis. Credit period granted to customers of water supply business is normally 30 days.

20. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS *(Continued)*

Notes: (Continued)

(a) *(Continued)*

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired as at the balance sheet date is as follows:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Neither past due nor impaired	27,065	7,165
Past due but not considered impaired		
Within 3 months	1	503
4 to 6 months	1	138
7 to 9 months	1	84
10 to 12 months	–	16
Over 1 year	–	50
	27,068	7,956

Trade receivables as at the balance sheet date mainly derived from provision of maintenance and construction works on civil engineering contracts. The related customers are mainly government departments/organisation and reputable corporations. These customers have established good track record with the Group and have no history of default payments. On this basis, management believes that no impairment allowance is necessary in respect of the trade receivables as at 31 March 2009. The Group does not hold any collateral over these balances.

(b) Retention monies withheld by customers of contract works are released after the completion of maintenance period of the relevant contract or in accordance with the terms specified in the relevant contract.

(c) Other receivables as at the balance sheet date mainly comprise the advance payments to the principal sub-contractors. The Group has established long business relationship with these sub-contractors which provide on-going sub-contracting services to the Group and have no history of default payments. Accordingly, impairment allowance is not necessary in respect of these balances.

(d) Trade and other receivables including the retention receivables are short term and hence the directors consider the carrying amount of trade and other receivables approximate their fair values at the balance sheet dates.

21. PLEDGED BANK DEPOSITS

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Bank deposits pledged against certain bank loans *(note 24)* and performance bonds	32,297	28,936
Less: Pledged bank deposit included under non-current assets	(5,000)	(5,000)
Pledged bank deposits included under current assets	27,297	23,936

Pledged bank deposits all denominated in HK$, earn interest at fixed rate ranged from 0.05% to 2.49% (2008: 1.05% to 1.72%) per annum and have maturity period of one month (2008: three months) on average. The carrying amounts of these bank deposits approximate their fair values at the balance sheet dates.

22. CASH AND CASH EQUIVALENTS

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Cash at banks and in hand	60,757	32,684
Short-term bank deposits	3,000	140,200
	63,757	172,884

	The Company	
	2009	**2008**
	HK$'000	*HK$'000*
Cash at banks and in hand	568	422
Short-term bank deposits	–	139,200
	568	139,622

As at 31 March 2009, cash balance denominated in Renminbi ("**RMB**") amounted to HK$3,521,000 (2008: HK$5,562,000). RMB is not freely convertible into other currencies.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term bank deposits carry interest at fixed rate of 1.00% (2008: 0.30% to 1.15%) per annum and have maturity period of one month (2008: one week) on average.

The directors consider that the fair value of the short-term deposits is not materially different from their carrying amounts because of the short maturity period.

23. TRADE AND OTHER PAYABLES

Details of the trade and other payables including the ageing analysis of trade payables (based on invoice date) are as follow:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Trade payables aged		
Within 3 months	41,243	30,823
4 to 6 months	7,128	4,024
7 to 9 months	508	175
10 to 12 months	1,418	103
Over 1 year	897	2,862
	51,194	37,987
Retention payables *(note (a))*	1,805	33
Other payables and accruals	10,874	27,033
	63,873	65,053

Notes:

(a) Retention monies withheld by the Group are released after the completion of maintenance period of the relevant contract.

(b) Credit period granted by suppliers and subcontractors is normally 30 to 60 days.

(c) Trade and other payables are short term and hence the directors consider the carrying amount of trade and other payables approximate their fair values at the balance sheet dates.

24. BORROWINGS

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Current		
Bank loans, secured *(note (a))*	141,771	197,649
Other loans, unsecured	–	7,466
Finance lease liabilities *(note (b))*	2,363	4,688
	144,134	209,803
Non-current		
Bank loans, secured *(note (a))*	15,000	31,649
Other loans, unsecured	–	5,491
Finance lease liabilities *(note (b))*	201	2,327
	15,201	39,467
Total borrowings	159,335	249,270
Analysed into:		
Bank loans repayable		
Within one year	141,771	197,649
In the second year	15,000	20,550
In the third to fifth years, inclusive	–	11,099
	156,771	229,298
Other borrowings repayable		
Within one year	2,363	12,154
In the second year	201	2,786
In the third to fifth years, inclusive	–	2,100
Beyond five years	–	2,932
	2,564	19,972
	159,335	249,270

24. BORROWINGS *(Continued)*

Notes:

(a) Bank loans amounting to HK$156,771,000 (2008: HK$207,099,000) are secured by the corporate guarantees issued by the Company *(note 33)* and of which HK$123,771,000 (2008: HK$197,099,000) are further secured by charges over bank deposits amounting to HK$32,297,000 (2008: HK$28,936,000) *(note 21)*. In addition, bank loans amounting to HK$81,421,000 (2008: HK$114,402,000) is secured by the proceeds on certain civil engineering contracts. Apart from the above, bank loan amounting to HK$15,000,000 (2008: Nil) is secured by personal guarantee from a director of the Company.

(b) The Group leases certain of its motor vehicles and machinery and these leases are classified as finance leases having remaining lease terms ranging from five months to two years (2008: one to three years). As at 31 March 2009, the total future minimum lease payments under finance leases and their present values were as follows:

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Total minimum lease payments		
– Due within one year	2,399	4,885
– Due in the second year	207	2,249
– Due in the third to fifth years, inclusive	–	115
	2,606	7,249
Less: future finance charges on finance leases	(42)	(234)
Present value of finance lease liabilities	2,564	7,015
Present value of finance lease liabilities		
– Due within one year	2,363	4,688
– Due in the second year	201	2,214
– Due in the third to fifth years, inclusive	–	113
	2,564	7,015
Less: portion due within one year included under current liabilities	(2,363)	(4,688)
Non-current portion included under non-current liabilities	201	2,327

24. BORROWINGS *(Continued)*

Notes: (Continued)

(c) Other information about the borrowings:

	Original currency	Effective interest rate per annum at year end 2009 Floating rate	2009 Fixed rate	2008 Floating rate	2008 Fixed rate
Bank loans	HK$	1.40% – 3.20%	–	2.48% - 3.86%	–
Bank loans	RMB	–	–	8.61% - 9.40%	–
Other loans	RMB	–	–	–	1.25% – 8.40%
Finance lease liabilities	HK$	2.02% – 2.09%	3.25% – 4.00%	3.20%	3.25%

In the opinion of the directors, the carrying amounts of the Group's current and non-current borrowings approximate their fair values as of balance sheet date. The fair values of the non-current borrowings are calculated by discounting their expected future cash flow at market rate.

(d) As at 31 March 2009, the Group had available bank facilities of HK$268,431,000 (2008: HK$273,660,000), out of which HK$111,666,000 (2008: HK$57,960,000) was not utilised.

25. DEFERRED TAX

The movement of the deferred tax liabilities is as follows:

	The Group 2009 *HK$'000*	2008 *HK$'000*
At 1 April 2008/2007	3,043	3,067
Arising from business combination *(note 29)*	514	–
Charged/(Credited) to income statement *(note 9)*	127	(24)
At 31 March 2009/2008	3,684	3,043

The deferred tax liabilities represent the tax effects of taxable temporary differences arising as a result of tax depreciation allowances being in excess of the accounting depreciation.

26. SHARE CAPITAL

	Notes	Par value HK$	Number of ordinary shares	Total HK$'000
Authorised				
At 31 March 2008 and 31 March 2009	*(a)*	0.05	2,000,000,000	100,000
Issued and fully paid				
At 1 April 2007		0.1	320,000,000	32,000
Shares issued upon exercise of share options		0.1	15,380,000	1,538
Issue of new shares	*(b)*	0.1	64,000,000	6,400
Subdivision of shares	*(a)*		399,380,000	–
		0.05	798,760,000	39,938
Shares issued upon exercise of share options		0.05	6,800,000	340
Issue of new shares	*(b)*	0.05	128,000,000	6,400
Repurchase of shares		0.05	(2,780,000)	(139)
At 31 March 2008 and 1 April 2008		0.05	930,780,000	46,539
Repurchase of shares	*(c)*	0.05	(129,800,000)	(6,490)
At 31 March 2009		0.05	800,980,000	40,049

Notes:

(a) Pursuant to the ordinary resolution of the Company passed on 11 June 2007, every issued and unissued ordinary share of HK$0.1 each of the Company was subdivided into two ordinary shares of HK$0.05 each (the "**Shares Subdivision**"). The Shares Subdivision became effective on 12 June 2007. As a result of the Shares Subdivision, the authorised share capital of the Company has become HK$100,000,000 divided into 2,000,000,000 ordinary shares of HK$0.05 each and the issued share capital immediately prior to the Shares Subdivision of HK$39,938,000 divided into 399,380,000 ordinary shares of HK$0.1 each has become HK$39,938,000 divided into 798,760,000 ordinary shares of HK$0.05 each.

26. SHARE CAPITAL *(Continued)*

Notes: (Continued)

(b) On 13 April 2007, the Company entered into a subscription agreement with China Water Affairs Group Limited ("**China Water**") and Oceanup Investments Limited ("**Oceanup**"), a wholly-owned subsidiary of China Water, under which China Water has agreed to subscribe, through Oceanup, and the Company has agreed to issue 64,000,000 ordinary shares (or 128,000,000 ordinary shares to adjust for the effect of the Shares Subdivision) of the Company at the subscription price of HK$0.80 per share (or HK$0.40 per share to adjust for the effect of the Shares Subdivision). The subscription was completed in June 2007.

On 15 June 2007, the Company entered into a placement agreement (the "**Placement Agreement**") with Robinhoods Development Limited ("**Robinhoods**"), a substantial shareholder of the Company, and a placing agent. Pursuant to the Placement Agreement, the placing agent has agreed to procure for the sale of up to 128,000,000 ordinary shares held by Robinhoods to independent third parties at HK$1.53 per share (after the effect of the Shares Subdivision). On the same day, the Company entered into a subscription agreement with Robinhoods, pursuant to which Robinhoods has conditionally agreed to subscribe for the equivalent number of ordinary shares that are actually sold by the placing agent at HK$1.53 per share. On 21 June 2007, 128,000,000 ordinary shares were placed to the placing agent and on 29 June 2007, the same number of ordinary shares was issued and subscribed by Robinhoods.

The net proceeds generated from the above-mentioned subscription and placing amounted to approximately HK$237,488,000.

(c) During the year, the Company repurchased its own ordinary shares and the details are so as follows:

Month/Year	**Method of purchase**	**Number of shares repurchased**	**Price paid per share Highest**	**Lowest**	**Aggregate price paid***
			HK$	*HK$*	*HK$'000*
April 2008	On the Stock Exchange	1,800,000	0.48	0.44	840
December 2008	Off-market *(note (i))*	128,000,000	0.42	0.42	53,868
		129,800,000			54,708

* Including direct expenses

Notes:

(i) The Company made an off-market repurchases by entering into an agreement with China Water on 18 September 2008 to repurchase from China Water 128,000,000 ordinary shares of the Company (the "**128M Shares Repurchase**") at the repurchase price of HK$0.42 per share, giving rise to the total consideration of HK$53,760,000. Those shares were subscribed by Oceanup in June 2007 as mentioned in note (b) above.

The consideration for the 128M Shares Repurchase was offset against the consideration for another transaction to the disposal of certain subsidiaries of the Group as mentioned in note 30.

(ii) As a result of the share repurchases, an amount equivalent to the par value of the shares repurchased of HK$6,490,000 was transferred from retained profits to the capital redemption reserve.

27. SHARE-BASED COMPENSATION

The Company has adopted a share option scheme (the "**Scheme**") pursuant to a written resolution of all the then shareholders passed on 25 February 2006. The purpose of the Scheme is to recognise and acknowledge the contributions that the eligible participants have made or may make to the business development of the Group. Eligible participants of the Scheme include (i) the Company's executive, non-executive or independent non-executive directors or a director of an entity in which the Group holds an interest (the "**Affiliate**"); (ii) other employee or officer of the Group or any Affiliate; (iii) customer, supplier, agent, partner, consultant, adviser or shareholder of or contractor to the Group or any Affiliate; (iv) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include persons under (i), (ii) and (iii); and (v) a company beneficially owned by any persons under (i), (ii) and (iii).

The principal terms of the Scheme are summarised as follows:

(1) Upon acceptance of the option, the grantee shall pay HK$1 to the Company as consideration for the grant.

(2) The subscription price in respect of each share under the Scheme shall not be less than the highest of (i) the nominal value of the Company's shares; (ii) the closing price of each share as stated in the Stock Exchange's daily quotations sheet on the date of offer to the eligible participant, which must be a day on which licensed banks are open for business in Hong Kong and the Stock Exchange is open for business for dealing in securities ("**Trading Day**"); and (iii) the average closing price of each share as stated in the Stock Exchange's daily quotations sheets for the five consecutive Trading Days immediately preceding the date of offer to the eligible participant.

(3) An option may be exercised in accordance with the terms of the Scheme at any time during the period which shall not be more than 10 years from the business day on which the option is deemed to have been granted. There is no minimum period for which an option must be held before it can be exercised.

(4) An option will lapse on expiry of the exercise period of the option, on cessation of employment, or on cessation to be customer, supplier, agent, partner, consultant, adviser or shareholder of or contractor to the Group or any Affiliate.

(5) The maximum number of the Company's shares which may be issued upon exercise of all options to be granted under the Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date of listing of the Company's shares on the Stock Exchange. The Scheme mandate limit may be refreshed by the shareholders in general meeting from time to time provided always that the Scheme mandate limit so refreshed must not exceed 10% of the total number of shares in issue as at the date of approval of such refreshment by the shareholders in general meeting.

27. SHARE-BASED COMPENSATION *(Continued)*

(5) *(Continued)*

Notwithstanding any other provisions of the Scheme, the maximum number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other scheme of the Company must not in aggregate exceed 30% of the total number of shares in issue from time to time. Unless approved by the shareholders, the maximum number of shares issued and to be issued upon exercise of the options granted to any eligible participants (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue from time to time.

(6) The Scheme shall be valid and effective for a period of ten years commencing on the date of adoption of the Scheme, i.e. 25 February 2006.

(7) Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Terms and conditions of the share options granted

Details of the share options granted to certain directors of the Company and certain employees, sub-contractors, consultants and suppliers of the Group are as follows:

Options grant date	**Number of options granted**	**Exercisable period**	**Exercise price**	**Company's share price immediately before grant date**	**Company's share price on grant date**
			HK$	*HK$*	*HK$*
26 March 2007 *(note (a))*	38,400,000	*note (b)*	0.445	0.415	0.445
4 April 2007 *(note (a))*	22,300,000	*note (b)*	0.600	0.585	0.600
17 April 2007 *(note (a))*	2,400,000	*note (b)*	0.975	0.920	0.975
17 May 2007 *(note (a))*	900,000	*note (b)*	1.420	1.425	1.420
5 October 2007	12,550,000	*note (c)*	0.812	0.780	0.780
18 February 2009	64,000,000	*note (d)*	0.148	0.150	0.148
	140,550,000				

27. SHARE-BASED COMPENSATION *(Continued)*

Terms and conditions of the share options granted *(Continued)*

Notes:

(a) The number of share options granted on 26 March 2007, 4 April 2007, 17 April 2007 and 17 May 2007 was 19,200,000, 11,150,000, 1,200,000 and 450,000 respectively. As a result of the Shares Subdivision as explained in note 26(a), the numbers of share options have been adjusted to become 38,400,000, 22,300,000, 2,400,000 and 900,000 respectively. The respective exercise price and the share price of the Company disclosed herewith have been adjusted for the effect of Shares Subdivision.

(b) These share options vest on the date of grant and are exercisable from the date of acceptance of the options up to 31 May 2009.

(c) Among the share options granted on 5 October 2007, 7,900,000 options vest on the date of grant and are exercisable from the date of acceptance of the options up to 31 October 2009, 2,325,000 options vest after 6 calendar months from the grant date and will expire on 4 April 2009, and the remaining 2,325,000 options vest after 12 calendar months from the grant date and will expire on 4 October 2009.

(d) Share options granted on 18 February 2008 vest on the date of grant and are exercisable from the date of acceptance of the options up to 29 February 2012.

27. SHARE-BASED COMPENSATION *(Continued)*

Movements of the share options and their weighted average exercise price

The movements of the share options during the financial year are as follows:

2009

		Number of share options				
Grantees	**Options grant date**	**At 1 April 2008**	**Granted**	**Exercised**	**Forfeited**	**At 31 March 2009**
		'000	*'000*	*'000*	*'000*	*'000*
Directors	17 April 2007	1,200	–	–	–	1,200
	18 February 2009	–	8,000	–	–	8,000
		1,200	8,000	–	–	9,200
Employees	4 April 2007	1,700	–	–	–	1,700
	17 April 2007	300	–	–	(300)	–
	17 May 2007	440	–	–	(40)	400
	5 October 2007	3,800	–	–	(1,750)	2,050
	18 February 2009	–	8,000	–	–	8,000
		6,240	8,000	–	(2,090)	12,150
Suppliers of services or goods	26 March 2007	9,000	–	–	–	9,000
	4 April 2007	13,400	–	–	–	13,400
	5 October 2007	8,750	–	–	(250)	8,500
	18 February 2009	–	48,000	–	–	48,000
		31,150	48,000	–	(250)	78,900
Total		38,590	64,000	–	(2,340)	100,250
Weighted average exercise price (HK$ per share)		0.657	0.148	–	0.843	0.328

27. SHARE-BASED COMPENSATION *(Continued)*

Movements of the share options and their weighted average exercise price *(Continued)*

2008

		Number of share options				
Grantees	**Options grant date**	**At 1 April 2007**	**Granted**	**Exercised**	**Forfeited**	**At 31 March 2008**
		'000	*'000*	*'000*	*'000*	*'000*
Directors	17 April 2007	–	1,400	–	(200)	1,200
Employees	4 April 2007	–	3,100	(1,400)	–	1,700
	17 April 2007	–	1,000	(700)	–	300
	17 May 2007	–	900	(260)	(200)	440
	5 October 2007	–	3,800	–	–	3,800
		–	8,800	(2,360)	(200)	6,240
Suppliers of services or goods	26 March 2007	38,400	–	(29,400)	–	9,000
	4 April 2007	–	19,200	(5,800)	–	13,400
	5 October 2007	–	8,750	–	–	8,750
		38,400	27,950	(35,200)	–	31,150
Total		38,400	38,150	(37,560)	(400)	38,590
Weighted average exercise price (HK$ per share)		0.445	0.713	0.491	1.198	0.657

The exercise prices of the outstanding share options as at 31 March 2009 range from HK$0.148 to HK$1.420 per share (2008: HK$0.445 to HK$1.420 per share) and their weighted average remaining contractual life as at 31 March 2009 is 1.97 years (2008: 1.30 years).

Fair value of the share options granted during the financial year

The weighted average fair value of the share options granted during the year is HK$0.046 (2008: HK$0.151) per share. The fair value of the share options granted to the directors, employees and sub-contractors was determined based on the fair value of the equity instruments measured on the date of grant. Share options granted to the sub-contractors are an incentive to them for their continuing contribution to the Group and it is impractical to determine the fair value of such incentive. The fair value of the share options granted to the consultants and suppliers was determined based on the market price of the services provided.

27. SHARE-BASED COMPENSATION *(Continued)*

Fair value of the share options granted during the financial year *(Continued)*

The fair value of the share options granted during the financial year is determined by an independent valuer using the Black-Scholes option pricing model (the "**Model**"). Details of the inputs to the Model are as follows:

Share price (HK$ per share)	0.148
Exercise price (HK$ per share)	0.148
Expected volatility (%)	96.06%
Risk-free interest rate (%)	0.26%
Dividend yield (%)	5.41%
Expected life of option (years)	1.0

Expected volatility is determined by reference to the weekly share price movement of the Company for the period from 2 June 2008 to 2 June 2009.

Risk-free interests rate represents the yields to maturity of Hong Kong Exchange Fund Note with respective terms to maturity as at the valuation date.

The expected life of option is determined based on management's best estimates for the effects of non-transferability of the options, exercise restrictions and behavioural considerations.

Financial effect of the share options

The amount of share-based compensation arising from granting the share options during the year was HK$2,929,000 (2008: HK$5,348,000). The share-based compensation in respect of the share options granted to the sub-contractors and suppliers amounting to HK$1,098,000 (2008: HK$2,203,000) was recognised as cost of revenue while the share-based compensation in respect of the share options granted to the directors and employees amounting to HK$733,000 (2008: HK$1,709,000) and consultants amounting to HK$1,098,000 (2008: HK$1,436,000) was recognised as administrative expenses. The corresponding amount of HK$2,929,000 (2008: HK$5,348,000) has been credited to the share option reserve. No liabilities were recognised as those are equity-settled share-based payment transactions.

In addition, shares-based compensations amounting to HK$198,000 is recognised during the year in respect of certain share options granted on 5 October 2007 which become vested during the year. The amount of share-based compensation arising from the share options granted to employees is HK$153,000 whereas those arising from the share options granted to consultants is HK$45,000. The entire amount of share-based compensation is recognised as administrative expenses. The corresponding amount of HK$198,000 is credited to the share option reserve.

27. SHARE-BASED COMPENSATION *(Continued)*

Financial effect of the share options *(Continued)*

During the current financial year, 2,340,000 share options which were granted to consultants and employees were forfeited and the corresponding share option expense of HK$343,000 was transferred from share option reserve to retained profits. During last financial year, 400,000 share options which were granted to directors and employees were forfeited and the corresponding share option expense of HK$88,000 was transferred from share option reserve to retained profits.

The number of outstanding share options which are exercisable as at 31 March 2009 was 100,250,000 (2008: 33,940,000) which represent approximately 12.5% (2008: 3.6%) of the Company's shares in issue on that date. The exercise in full of these share options would result in the issue of 100,250,000 additional ordinary shares of the Company including additional share capital of HK$5,013,000 and share premium of HK$27,829,000.

28. RESERVES

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Share premium *(note (a))*	207,178	255,396
Merger reserve *(note (b))*	13,805	13,805
Share option reserve *(note (d))*	7,809	5,025
Capital redemption reserve *(note (e))*	6,629	139
Translation reserve *(note (f))*	517	2,893
Retained profits	106,893	106,609
	342,831	383,867

28. RESERVES *(Continued)*

The Company

	Share premium *HK$'000* *(note (a))*	Contributed surplus *HK$'000* *(note (c))*	Share option reserve *HK$'000* *(note (d))*	Capital redemption reserve *HK$'000* *(note (e))*	Retained profits *HK$'000*	Total *HK$'000*
At 1 April 2007	12,010	76,249	3,282	–	181	91,722
Profit for the year	–	–	–	–	9,010	9,010
Adjustment for 2007 final dividend	–	–	–	–	(22)	(22)
Share options granted	–	–	5,348	–	–	5,348
Share options forfeited	–	–	(88)	–	38	(50)
Share issued upon exercise of share options	20,094	–	(3,517)	–	–	16,577
Issue of new shares	234,240	–	–	–	–	234,240
Share issue expenses	(9,552)	–	–	–	–	(9,552)
Repurchase of shares	(1,396)	–	–	139	(139)	(1,396)
Proposed final dividend	–	–	–	–	(7,432)	(7,432)
At 31 March 2008 and 1 April 2008	255,396	76,249	5,025	139	1,636	338,445
Profit for the year	–	–	–	–	9,702	9,702
Share-based compensation *(note 27)*:						
Share options granted in previous years	–	–	198	–	–	198
Share options granted in current years	–	–	2,929	–	–	2,929
Share options forfeited *(note 27)*	–	–	(343)	–	31	(312)
Repurchase of shares *(note 26(c))*	(48,218)	–	–	6,490	(6,490)	(48,218)
At 31 March 2009	207,178	76,249	7,809	6,629	4,879	302,744

28. RESERVES *(Continued)*

The Company *(Continued)*

Note:

(a) Under the Companies Law Cap. 22, (Law 3 of 1961, as consolidated and 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 a 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.

(b) The merger reserve of the Group represents the difference between the nominal value of the aggregate share capital of subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange pursuant to the reorganisation of the Group taken place before the listing of Company on the Stock Exchange.

(c) Contributed surplus of the Company represents the difference between the costs of investment in subsidiaries acquired over the nominal value of the share capital of the Company in exchange pursuant to the reorganisation of the Group taken place before the listing of Company's shares on the Stock Exchange.

(d) Share option reserve represents the fair value of share options granted as further explained in the accounting policy adopted for share-based compensation in note 3.15.

(e) Capital redemption reserve represents the transfer from retained profits of the amount equivalent to the par value of the shares repurchased.

(f) Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations in accordance with the accounting policy adopted in note 3.11.

29. BUSINESS COMBINATIONS

Acquisition of 清新縣飛來峽發興自來水有限公司

On 29 April 2008, the Group entered into an equity transfer agreement (the "Equity Transfer Agreement") with an independent third party (the "**Vendor**") under which the Group agreed to buy and the Vendor agreed to sell 83.33% equity interest in a PRC entity, 清新縣飛來峽發興自來水有限公司 (previously known as 清新縣江口興迅自來水公司) ("**發興自來水**"), at the consideration of RMB500,000 (equivalent to approximately HK$570,000) which was satisfied by way of cash (the "**Qingxin Acquisition**"). 發興自來水 is principally engaged in provision of water supply services in certain areas of Qingxin County, Qingyuan City, Guangdong Province, the PRC. Further details about the Qingxin Acquisition were set out in the announcement of the Company dated 14 May 2008.

29. BUSINESS COMBINATIONS *(Continued)*

Acquisition of 清新縣飛來峽發興自來水有限公司 *(Continued)*

The fair value of the identifiable assets and liabilities of 發興自來水 at the date of Qingxin Acquisition and the corresponding carrying amounts immediately before the Qingxin Acquisition are as follows:

	On the date of the Qingxin Acquisition		
	Carrying amount *HK$'000*	**Fair value adjustments** *HK$'000*	**Fair value** *HK$'000*
Property, plant and equipment	7,740	2,018	9,758
Prepaid land lease payments	108	40	148
Other receivables	5	–	5
Bank balances and cash	19	–	19
Other payables	(7,347)	–	(7,347)
Tax payables	(109)	–	(109)
Deferred tax liabilities *(note 25)*	–	(514)	(514)
Total assets and liabilities	416	1,544	1,960
Fair value of identifiable assets and liabilities acquired - 83.33%			1,632
Excess over the cost of business combination *(note 5)*			(945)
Total cost of investment#			687
The total cost of investment is satisfied by:			
Cash			687
Net cash outflow arising on the Qingxin Acquisition:			
Cost of investment			687
Bank balances and cash acquired			(19)
			668

\# including incidental costs for the Qingxin Acquisition

29. BUSINESS COMBINATIONS *(Continued)*

Acquisition of 清新縣飛來峽發興自來水有限公司 *(Continued)*

The excess of the Group's interests in the fair value of the identifiable assets and liabilities of 發興自來水 over the cost of investment is attributable to the fact that 發興自來水 has been operating at net loss in recent years and it is expected that 發興自來水 will continue to make loss in the coming year. However with the repaid expansion of the industrial sector in Qingyuan City and thus expected growth in demand of water supply in the region, management is of the opinion that 發興自來水 will become profit making in foreseeable future.

Revenue and net loss generated by 發興自來水 after the Qingxin Acquisition amounted to HK$418,000 and HK$267,000 respectively. Had the Qingxin Acquisition been taken place on 1 April 2008, the revenue and net profit of the Group for the year ended 31 March 2009 would have been HK$661,401,000 and HK$5,956,000 respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operation of the Group that actually would have been achieved had the Qingxin Acquisition been completed on 1 April 2008, nor are they intended to be a projection of future results.

Acquisition of the assets of 湖南省寧鄉縣自來水公司

On 31 August 2007, the Company entered into an agreement (the "**Main Agreement**") with the local government authority of Ningxiang County, Changsha City, Hunan Province, the PRC (the "**Ningxiang Government**") (the Company and the Ningxiang Government are collectively referred to as the "**Parties**"). Pursuant to the Main Agreement, the Company agreed to acquire the total assets (the "**Assets**") of 湖南省寧鄉縣自來水公司 (Hunan Province Ningxiang County Water Supply Company) ("**Ningxiang Water**") at a total cash consideration of RMB90,080,000 (equivalent to approximately HK$99,983,000) (the "**Ningxiang Acquisition**"). Ningxiang Water is a state-owned enterprise established in the PRC and it is an exclusive water supply service provider in certain areas of Ningxiang County. Further details about the Ningxiang Acquisition were set out in the circular of the Company dated 27 September 2007.

The Ningxiang Acquisition was conditional upon the signing of further agreements by the Parties or parties designated by Parties regarding the transfer of the Assets from Ningxiang Water to the Group and granting concession to the Group for the provision of water supply services in certain areas of Ningxiang County for 30 years (the "**Additional Agreements**"). The Additional Agreements were signed and subsequently the Ningxiang Acquisition was completed on 31 December 2007.

Pursuant to the Main Agreement, the consideration could be settled by way of assuming the liabilities of Ningxiang Water. In addition, the results of Ningxiang Water arising from normal operation from 1 April 2007 until the date of Ningxiang Acquisition were taken up by the Group. Taking into account the legal and professional fees incidental to the Ningxiang Acquisition, the total cost of investment for the Ningxiang Acquisition was HK$105,914,000.

29. **BUSINESS COMBINATIONS** *(Continued)*

Acquisition of the assets of 湖南省寧鄉縣自來水公司 *(Continued)*

The fair value of the identifiable assets and liabilities of Ningxiang Water as at the date of Ningxiang Acquisition and the corresponding carrying amounts immediately before the Ningxiang Acquisition are as follows:

	On the date of the Ningxiang Acquisition		
	Carrying amount	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	68,986	4,855	73,841
Prepaid land lease payments	10,779	11,020	21,799
Inventories	598	–	598
Trade and other receivables	9,229	–	9,229
Cash and cash equivalents	3,130	–	3,130
Assets acquired	92,722	15,875	108,597
Excess over the cost of business combination *(note 5)*			(2,683)
Total cost of investment			105,914
The total cost of investment is satisfied by:			
Cash			33,207
Assuming the liabilities of Ningxiang Water			72,707
			105,914
Net cash outflow arising on the Ningxiang Acquisition:			
Cash consideration			33,207
Bank balances and cash acquired			(3,130)
Exchange differences			(1,036)
			29,041

29. BUSINESS COMBINATIONS *(Continued)*

Acquisition of the assets of 湖南省寧鄉縣自來水公司 *(Continued)*

Revenue and net profit generated from the water supply business after the Ningxiang Acquisition amounted to HK$7,767,000 and HK$164,000 respectively. Had the Ningxiang Acquisition been taken place on 1 April 2007, the revenue and net profit of the Group for the year ended 31 March 2008 would have been HK$675,965,000 and HK$19,185,000 respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Group that actually would have been achieved had the Ningxiang Acquisition been completed on 1 April 2007, nor are they intended to be a projection of future results.

30. DISPOSAL OF SUBSIDIARIES

On 18 September 2008, the Group entered into an agreement with China Water for the disposal of entire issued capital of its indirect wholly-owned subsidiary, Ming Hing Waterworks Engineering (PRC) Limited ("**MH PRC**"), and to assign to China Water all obligations, liabilities and debts owing or incurred by MH PRC to the Group on the completion date of the disposal (the "**Disposal**").

MH PRC has 100% equity interests in Ming Hing Waterworks (Changsha) Company Limited ("**MH Changsha**") which is principally engaged in the provision of water supply services in Ningxiang County. The major operating assets of MH Changsha were acquired by the Company in last financial year from Ningxiang Water pursuant to Main Agreement signed on 31 August 2007 as mentioned in note 29.

30. DISPOSAL OF SUBSIDIARIES *(Continued)*

The net assets of MH PRC and MH Changsha at the date of the Disposal were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	80,244
Prepaid land lease payments	22,656
Inventories	431
Trade and other receivables, prepayment and deposits	11,307
Bank balances and cash	4,201
Amounts due to group companies	(43,175)
Trade and other payables	(33,995)
Borrowings	(31,357)
Tax payables	(897)
	9,415
Debts assigned to China Water	43,175
Release of translation reserve	(3,646)
	48,944
Incidental costs incurred for the Disposal	1,400
	50,344
Gain on disposal of subsidiaries *(note 5)*	3,416
Total consideration	53,760
Net cash outflow arising from the Disposal:	
Bank balances and cash disposed of	(4,201)
Incidental cost incurred for the Disposal	(1,400)
	(5,601)

The consideration for the Disposal was agreed at HK$53,760,000 which was determined by reference to the then fair value of the assets and liabilities of MH PRC and MH Changsha. The consideration for the Disposal was entirely offset against the consideration for the another transaction of 128M Shares Repurchase as mentioned in note 26(c)(i). Further details about the Disposal and the 128M Shares Repurchase were set out in the circular of the Company dated 3 November 2008.

31. COMMITMENTS

The Group

Save as disclosed elsewhere in these financial statements, the Group had the following significant commitments as at 31 March 2009:

The future aggregate minimum lease rental payable under non-cancellable operating leases in respect of land and buildings was as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Within one year	1,523	1,289
In the second to fifth years, inclusive	1,450	2,091
	2,973	3,380

The Group leases certain properties under operating leases. The leases run for an initial period of two to three years, with an option to renew the leases and renegotiate the terms at the expiry date. The leases do not include any contingent rentals.

The Company

The Company did not have any significant commitments as at 31 March 2009 and 2008.

32. CONTINGENT LIABILITIES AND LITIGATIONS

As at 31 March 2009, a number of lawsuits and claims arising from the normal course of business were lodged against the Group which remain outstanding as at the date of these financial statements. Claim amounts are not specified in the applications of these lawsuits and claims. In the opinion of the Directors, sufficient insurance policies are maintained to cover the losses, if any, arising from these lawsuits and claims and therefore the ultimate liability under these lawsuits and claims would not have a material adverse impact on the financial position of the Group.

During the financial year ended 31 March 2007, the Group received from a sub-contractor two claims in respect of two completed projects with claim amount of approximately HK$7 million in aggregate. During the current financial year, the Group received correspondence from the solicitors of the sub-contractor to increase the amount of claims to approximately HK$9 million in aggregate. Based on the advice from the legal advisers of the Group, the Directors believe that the Group has a good case not only to defend but also to counterclaim the overpaid amount. Accordingly, the Directors consider that the claims will unlikely result in any material financial impact on the Group.

33. GUARANTEES

As at the balance sheet date, the Company had issued the following significant financial guarantees:

	2009	2008
	HK$'000	*HK$'000*
Guarantees in respect of:		
Credit facilities granted by banks to certain subsidiaries	156,771	207,099
Performance bonds issued by banks to a subsidiary's customer	13,000	13,000
Finance lease arrangements entered into by certain subsidiaries	2,064	6,482
	171,835	226,581

The Company, together with certain of its subsidiaries, issued cross guarantees to bankers as part of the security for credit facilities granted to the subsidiaries.

In the opinion of the Directors, the financial impact arising from providing the above financial guarantees is immaterial and accordingly, they are not accounted for in these financial statements.

34. RELATED PARTY TRANSACTIONS

The Group is controlled by Robinhoods, a limited liability company incorporated and domiciled in the British Virgin Islands. Robinhoods is held as to one-third by each of Able Promise Holdings Limited, Group Honour Assets Limited and Foremost Time Holdings Limited, limited liability companies incorporated and domiciled in the British Virgin Islands.

(i) Transactions with a related company

	2009	2008
	HK$'000	*HK$'000*
Rental expenses for office premises paid to Grand Media Limited *(Note)*	984	984

Note:

The directors of the Company, Mr. Yuen Chow Ming, Mr. Yuen Wai Keung and Mr. So Yiu Cheung, have equity interests of 34%, 33% and 33% respectively in Grand Media Limited.

34. RELATED PARTY TRANSACTIONS *(Continued)*

(ii) Key management personnel

Included in staff costs are key management personnel compensation which comprises the following categories:

	2009	2008
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	6,490	7,031
Equity-settled share-based compensation	848	1,247
Post-employment benefits	93	101
	7,431	8,379

35. 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 and to support the Group's stability and growth.

The Group monitors its capital structure on the basis of gearing ratio, i.e. net debt to equity. Net debt includes borrowings less cash and cash equivalents and pledged deposits. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. The gearing ratios of the Group as at 31 March 2009 and 2008 were as follows:

	2009	2008
	HK$'000	*HK$'000*
Debt	159,335	249,270
Less: cash and cash equivalents and pledged deposits	(96,054)	(201,820)
Net debt	63,281	47,450
Capital represented by total equity	383,182	437,838
Gearing ratio	16.5%	10.8%

The Group targets to maintain gearing ratio at a healthy level as have achieved in the current and last financial years, which is in line with the expected changes in economics and financial conditions.

36. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Financial assets		
Loan and receivables (including cash at bank and pledged bank deposits)	161,276	235,441
Financial liabilities		
Financial liabilities at amortised cost	223,208	328,047

	The Company	
	2009	**2008**
	HK$'000	*HK$'000*
Financial assets		
Loan and receivables (including cash at bank and pledged bank deposits)	214,856	314,785
Financial liabilities		
Financial liabilities at amortised cost	7,533	2,837

(b) Financial results by financial instruments

	The Group	
	2009	**2008**
	HK$'000	*HK$'000*
Income, expense, gains or losses on financial instruments:		
Interest income or (expenses) on:		
Loans and receivables	871	3,854
Financial liabilities at amortised cost	(6,566)	(6,511)

36. FINANCIAL INSTRUMENTS *(Continued)*

(c) Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks which comprise market risk (mainly interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by key management under the policies approved by the board of directors. The Group does not have written risk management policies. However, the Directors and senior management of the Group meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks.

(d) Financial risk management

Market risk – interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk mainly arises from bank borrowings. Majority of the bank borrowings are arranged at variable rates which expose the Group to cash flow interest rate risk. The interest rate and repayment terms of the bank borrowings outstanding at year end are disclosed in note 24.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The following sensitivity demonstrates the Group's exposure to a reasonably possible change in interest rates on its floating rate bank borrowings with all other variables held constant at the balance sheet date (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material):

	Increase/(Decrease) in profit after tax and equity	
	2009	**2008**
	HK$'000	*HK$'000*
Increase/Decrease in basis points ("bp")		
+ 100 bp	(1,325)	(1,929)
– 50 bp	663	963

The changes in interests rates do not affect the Group's other components of equity.

The above sensitivity analysis is prepared based on the assumption that the borrowings as at 31 March 2009 and 2008 existed throughout the whole respective financial year.

36. FINANCIAL INSTRUMENTS *(Continued)*

(d) Financial risk management *(Continued)*

Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's and the Company's maximum exposure to credit risk in relation to each class of recognised financial assets is the carrying amount of those assets *(note 36(a))* as stated in the consolidated and the Company's balance sheets and the amount of guarantees issued by the Company as disclosed in note 33.

The Group limits its exposure to credit risk by rigorously selecting the counterparties. Credit risk on cash and cash equivalents *(note 22)* is mitigated as cash is deposited in banks of high credit rating. Customers of engineering contracting business are mainly government departments/organisation and reputable corporations and thus credit risk is considered low. Credit risk on other loans and receivables is minimised as the Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually or collectively at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. The credit policies have been followed by the Group since prior years and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

None of the Group's financial assets are secured by collateral or other credit enhancements.

Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group's policy is to regularly monitors its liquidity requirements and its compliance with lending covenants in order to maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term. The liquidity policies have been followed by the Group since prior years and are considered to have been effective in managing liquidity risk.

36. FINANCIAL INSTRUMENTS *(Continued)*

(d) Financial risk management *(Continued)*

Liquidity risk *(Continued)*

The table below analyses the remaining contractual maturities of the Group's and the Company's financial liabilities at the balance sheet date which are determined based on contractual undiscounted cash flows and the earliest date the Group and the Company may be required to pay:

The Group	**Within 1 year or on demand**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 March 2009				
Borrowings	144,134	15,201	–	–
Interest payments on borrowings *(note)*	577	77	–	–
Trade payables	51,194	–	–	–
Retention payables	1,805	–	–	–
Other payables and accruals	10,874	–	–	–
	208,584	15,278	–	–
As at 31 March 2008				
Borrowings	209,803	23,336	13,199	2,932
Interest payments on borrowings *(note)*	4,379	1,437	1,035	144
Trade payables	37,987	–	–	–
Retention payables	33	–	–	–
Other payables and accruals	27,033	769	2,306	10,649
	279,235	25,542	16,540	13,725

36. FINANCIAL INSTRUMENTS *(Continued)*

(d) Financial risk management *(Continued)*

Liquidity risk *(Continued)*

The Company	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 March 2009				
Other payables and accruals	872	–	–	–
Amounts due to subsidiaries	6,661	–	–	–
	7,533	–	–	–
As at 31 March 2008				
Other payables and accruals	666	–	–	–
Amounts due to subsidiaries	2,171	–	–	–
	2,837	–	–	–

Note:

The interest on borrowings is calculated based on the amount of borrowings outstanding as at 31 March 2009 and 2008 at the respective interest rates.

The directors are of opinion that, at the balance sheet date, it is not probable for the counterparties to the financial guarantee contracts to claim the Group for any loses covered by the guarantee contracts. Therefore, the maturity analysis does not include any amount that the Group may have to pay under the guarantee contracts granted.

The contractual financial guarantee are disclosed in note 33.

(e) Fair value estimation

The carrying values of trade receivable net of impairment provision and payables are reasonable approximation of their fair values. The fair values of interest bearing loans is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

3. FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

Set out below is the unaudited condensed consolidated income statement, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and notes to the financial statements of the Group as extracted from the interim report of the Company for the six months ended 30 September 2009.

CONDENSED CONSOLIDATED INCOME STATEMENT
for the six months ended 30 September 2009

		Six months ended 30 September	
		2009	**2008**
		(Unaudited)	(Unaudited)
	Notes	*HK$'000*	*HK$'000*
Revenue	*4*	278,478	387,355
Cost of revenue		(266,249)	(350,436)
Gross profit		12,229	36,919
Other income and gains	*4*	72	1,715
Distribution and selling expenses		(278)	(1,822)
Administrative expenses		(19,852)	(28,087)
Operating (loss)/profit	*6*	(7,829)	8,725
Finance costs	*7*	(829)	(3,913)
(Loss)/Profit before income tax		(8,658)	4,812
Income tax expense	*8*	–	(734)
(Loss)/Profit for the period		(8,658)	4,078
(Loss)/Profit for the period attributable to:			
Owners of the Company		(8,639)	4,078
Non-controlling interests		(19)	–
		(8,658)	4,078
(Loss)/Earnings per share for (loss)/profit attributable to owners of the Company	*10*	*HK cents*	*HK cents*
– Basic		(1.08)	0.44
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 September 2009

	Six months ended 30 September	
	2009	**2008**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
(Loss)/Profit for the period	(8,658)	4,078
Other comprehensive income		
Exchange difference arising on translation of overseas operation	26	1,122
Total comprehensive income for the period	(8,632)	5,200
Attributable to:		
Owners of the Company	(8,613)	5,200
Non-controlling interests	(19)	–
	(8,632)	5,200

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 September 2009

	Notes	**At 30 September 2009** (Unaudited) *HK$'000*	**At 31 March 2009** (Audited) *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*11*	49,885	36,585
Prepaid land lease payments		143	143
Retention receivables		10,964	16,285
Pledged bank deposit		5,000	5,000
Prepayment for investments	*12*	–	3,657
		65,992	61,670
Current assets			
Inventories		6,776	–
Amounts due from customers of contract works		240,699	405,609
Trade and other receivables	*13*	69,036	53,755
Tax recoverable		539	527
Pledged bank deposits		27,351	27,297
Cash and cash equivalents		49,174	63,757
		393,575	550,945

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*
as at 30 September 2009

	Notes	At 30 September 2009 (Unaudited) HK$'000	At 31 March 2009 (Audited) HK$'000
Current liabilities			
Amounts due to customers of contract works		–	2,541
Trade and other payables	*14*	55,811	63,873
Borrowings	*15*	7,334	144,134
		63,145	210,548
Net current assets		330,430	340,397
Total assets less current liabilities		396,422	402,067
Non-current liabilities			
Borrowings	*15*	15,677	15,201
Deferred tax		3,684	3,684
		19,361	18,885
Net assets		377,061	383,182
EQUITY			
Share capital	*16*	40,124	40,049
Reserves		336,654	342,831
Equity attributable to owners of the Company		376,778	382,880
Non-controlling interests		283	302
Total equity		377,061	383,182

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2009

	Equity attributable to owners of the Company										
	Share capital HK$'000	Share premium* HK$'000	Merger reserve* HK$'000	Share option reserve* HK$'000	Capital redemption reserve* HK$'000	Translation reserve* HK$'000	Retained profits* HK$'000	Proposed final dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
(Unaudited)											
At 1 April 2008	46,539	255,396	13,805	5,025	139	2,893	106,609	7,432	437,838	–	437,838
Net profit for the period	–	–	–	–	–	–	4,078	–	4,078	–	4,078
Other comprehensive income											
Exchange difference arising on translation of overseas operation	–	–	–	–	–	1,122	–	–	1,122	–	1,122
Total comprehensive income for the period	–	–	–	–	–	1,122	4,078	–	5,200	–	5,200
Acquisition of interests in a subsidiary	–	–	–	–	–	–	–	–	–	421	421
2008 final dividend paid	–	–	–	–	–	–	–	(7,432)	(7,432)	–	(7,432)
Share-based compensation – share options granted in previous years	–	–	–	198	–	–	–	–	198	–	198
Share options forfeited	–	–	–	(66)	–	–	66	–	–	–	–
Repurchase of shares	(90)	(750)	–	–	90	–	(90)	–	(840)	–	(840)
Transactions with owners	(90)	(750)	–	132	90	–	(24)	(7,432)	(8,074)	421	(7,653)
As 30 September 2008	46,449	254,646	13,805	5,157	229	4,015	110,663	–	434,964	421	435,385
(Unaudited)											
At 1 April 2009	40,049	207,178	13,805	7,809	6,629	517	106,893	–	382,880	302	383,182
Net loss for the period	–	–	–	–	–	–	(8,639)	–	(8,639)	(19)	(8,658)
Other comprehensive income											
Exchange difference arising on translation of overseas operation	–	–	–	–	–	26	–	–	26	–	26
Total comprehensive income for the period	–	–	–	–	–	26	(8,639)	–	(8,613)	(19)	(8,632)
Share-based payment – share options granted in current period *(note 17)*	–	–	–	2,289	–	–	–	–	2,289	–	2,289
Share issued upon exercise of share options	75	216	–	(69)	–	–	–	–	222	–	222
Share options forfeited *(note 17)*	–	–	–	(3,411)	–	–	3,411	–	–	–	–
Transactions with owners	75	216	–	(1,191)	–	–	3,411	–	2,511	–	2,511
At 30 September 2009	40,124	207,394	13,805	6,618	6,629	543	101,665	–	376,778	283	377,061

* The total of these balances represents reserves in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30 September 2009

	Six months ended 30 September 2009 (Unaudited) *HK$'000*	Six months ended 30 September 2008 (Unaudited) *HK$'000*
Net cash generated from/(used in) operating activities	155,937	(53,036)
Net cash used in investing activities	(16,743)	(5,340)
Net cash used in financing activities	(153,769)	(63,071)
Net decrease in cash and cash equivalents	(14,575)	(121,447)
Cash and cash equivalents at beginning of the period	63,757	172,884
Effect of foreign exchange rate changes, on cash held	(8)	(7)
Cash and cash equivalents at end of the period	49,174	51,430

NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 30 September 2009

1. GENERAL INFORMATION

Ming Hing Waterworks Holdings Limited (the "**Company**") was incorporated in the Cayman Islands on 25 May 2004 as an exempted company with limited liability and its shares (the "**Shares**") are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of its principal place of business is Units 1809-1812, Telford House, 16 Wang Hoi Road, Kowloon Bay, Hong Kong.

The Company and its subsidiaries (collectively, the "**Group**") are principally engaged in the provision of maintenance and construction works on civil engineering contracts in respect of waterworks engineering, road works and drainage and slope upgrading for the public sector in Hong Kong, as well as the provision of water supply services in Mainland China.

The unaudited condensed consolidated financial statements for the six months ended 30 September 2009 (the "**Interim Financial Statements**") have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

The Interim Financial Statements do not include all of the information and disclosure required in the annual financial statements and thereby they should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2009.

The Interim Financial Statements are unaudited, but have been reviewed by the Company's Audit Committee. The Interim Financial Statements were approved for issue by the board of directors on 28 December 2009.

2. PRINCIPAL ACCOUNTING POLICIES

The Interim Financial Statements have been prepared under the historical cost basis.

The accounting policies used in preparing the Interim Financial Statements are consistent with those followed in the Group's annual financial statements for the year ended 31 March 2009 with the addition of certain standards and interpretations of Hong Kong Financial Reporting Standards ("**HKFRSs**") issued and became effective in the current interim period as described below.

3. ADOPTION OF NEW AND REVISED HKFRSs

Impact of new and revised HKFRSs which are effective in the current interim period

In the current interim period, the Group has adopted, for the first time, the following new and revised HKFRSs which are relevant and effective for the Group's financial statements for accounting periods beginning on or after 1 April 2009.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Amendment)	Cost of an investment in a Subsidiary, Jointly Controlled Entity or an Associate
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
Various	Annual improvements to HKFRSs 2008

HKAS 1 (Revised) – Presentation of Financial Statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items with these statements. It also gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses are unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income, for example exchange difference arising on the translation of overseas operation. HKAS 1 affects the presentation of owner changes in equity and introduces a "Statement of Comprehensive Income".

HKFRS 2 (Amendment) – Share-based Payment - Vesting Conditions and Cancellation

This standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because of a non-vesting condition is not satisfied. The adoption of this amendment does not have any impact on the financial position or performance of the Group.

HKFRS 7 (Amendment) – Improving Disclosures about Financial Instruments

The amendment increases the disclosure requirements about fair value measurement and amends the disclosures about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures about financial instruments and requires some specific quantitative disclosure for those instruments classified in the lowest level in the hierarchy. The Group will make additional relevant disclosures in its financial statements ending 31 March 2010.

3. ADOPTION OF NEW AND REVISED HKFRSs *(Continued)*

HKFRS 8 – Operating Segments

The adoption of HKFRS 8 has not affected the identified 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. In previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risk and returns. Comparatives have been restated on a basis consistent with the new standard.

The adoption of other new and revised HKFRSs which are effective during the current interim period does not have impact on the Interim Financial Statements.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 September	
	2009	**2008**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Contract revenue from maintenance and construction works on civil engineering contracts	278,187	366,994
Revenue from water supply services	262	13,098
Water supply related installation fee	29	7,263
	278,478	387,355
Other income and gains		
Bank interest income	65	488
Excess over the cost of business combination	–	945
Sundry income	7	282
	72	1,715
Total income	278,550	389,070

5. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 April 2009. The operating segments are reported in a manner consistent with the way in which information is reported internally to the Group's senior management for the purposes of resource allocation and assessment of segment performance. The Group has identified the following reportable segments:

Waterworks engineering contracting business	This segment provides maintenance and construction works on civil engineering contracts in respect of waterworks engineering, road works and drainage and slope upgrading for the public sector in Hong Kong
Water supply business	This segment provides water supply services and water supply related installation services in Mainland China

Under HKFRS 8, reported segment information is based on internal management reporting information that is regularly reviewed by the chief operating decision-maker, i.e. the Executive Directors.

The directors consider the adoption of HKFRS 8 has not changed the identified operating segments for the Group compared to those reported in the annual financial statements of the Group for the year ended 31 March 2009.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. Reportable segment profit/loss excludes corporate income and expenses from the Group's profit/loss before income tax. Corporate income and expenses are income and expenses incurred by corporate headquarter which are not allocated to the operating segments.

5. **SEGMENT INFORMATION** *(Continued)*

Information regarding the Group's reportable segments is set out below:

	Waterworks engineering contracting business		Water supply business		Consolidated	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	2009	2008	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Reportable segment revenue*	278,187	366,994	291	20,361	278,478	387,355
Reportable segment profit/(loss)	849	9,127	(328)	3,441	521	12,568
Corporate income and expenses					(8,350)	(3,843)
					(7,829)	8,725
Finance costs					(829)	(3,913)
(Loss)/Profit before income tax					(8,658)	4,812
Income tax expenses					–	(734)
(Loss)/Profit for the period					(8,658)	4,078

* All of the segment revenue reported above is from external customers.

The Group operates in two main geographical areas: Hong Kong and Mainland China. An analysis of the Group's revenue for the period by geographical locations is as follows:

	Hong Kong		Mainland China		Consolidated	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	2009	2008	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	278,187	366,994	291	20,361	278,478	387,355

6. OPERATING (LOSS)/PROFIT

	Six months ended 30 September	
	2009	**2008**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Operating (loss)/profit is arrived at after charging/(crediting):		
Amortisation of prepaid land lease payments	1	238
Depreciation of property, plant and equipment		
– owned assets	2,922	4,626
– leased assets	681	939
	3,603	5,565
Staff costs (including directors' emoluments)		
– salaries, allowances and benefits in kind	35,519	49,578
– retirement benefits scheme contributions	1,077	1,932
– equity-settled share-based compensation *(note 17)*	2,030	153
	38,626	51,663
Operating lease charges		
– land and buildings	762	756
– plant and machinery	2,741	5,197
	3,503	5,953
Loss/(Gain) on disposal of property, plant and equipment	226	(337)
Impairment of prepayment for investments *(note 12)*	3,657	–

7. FINANCE COSTS

	Six months ended 30 September 2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest charges on:		
Bank loans wholly repayable within five years	819	3,484
Interest element of finance lease payments	10	110
Other borrowings repayable within five years	–	319
	829	3,913

8. INCOME TAX EXPENSE

Hong Kong profits tax is calculated at 16.5% (six months ended 30 September 2008: 16.5%) of the estimated assessable profit for the period.

	Six months ended 30 September 2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current tax for the period		
– Hong Kong profits tax	–	908
Deferred tax	–	(174)
Income tax expense	–	734

9. DIVIDENDS

On 28 December 2009, the Directors declared an interim dividend of HK1.2 cent per share, amounting to HK$9,630,000. This dividend is not reflected as dividend payable in these interim financial statements but will be reflected as an appropriation of retained profits for the year ending 31 March 2010.

No dividend has been declared by the Company in respect of last financial year.

10. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings is based on the loss for the period attributable to the owners of the Company of HK$8,639,000 (six months ended 30 September 2008: profit of HK$4,078,000) and the weighted average number of ordinary shares in issue during the period of 30 September 2009 of 802,480,000 (six months ended 30 September 2008: 929,137,000).

The computation of diluted loss per share for the current interim period does not assume the conversion of the outstanding share options as mentioned in note 17 since this would result in a decrease in loss per share.

The computation of diluted earnings per share for the last interim period does not adjust for the effects of the share options since the exercise prices of those share options were higher than the average market price of the Company's shares for the last interim period.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2009, the Group incurred capital expenditure of approximately HK$771,000 (six months ended 30 September 2008: HK$949,000) in furniture, fixtures and equipment, approximately HK$741,000 (six months ended 30 September 2008: HK$36,000) in leasehold improvements, approximately HK$13,648,000 (six months ended 30 September 2008: HK$450,000) in motor vehicles, approximately HK$1,963,000 (six months ended 30 September 2008: HK$269,000) in machinery and tools and Nil (six months ended 30 September 2008: HK$3,594,000) in respect of the construction work in progress.

No significant disposal of property, plant and equipment was made during the period.

12. PREPAYMENT FOR INVESTMENTS

Prepayment for investments as at 31 March 2009 comprised an amount of RMB2,000,000 (equivalent to approximately HK$2,157,000) which represented the deposit paid by the Group for the potential formation of equity joint venture which will be principally engaged in provision of water supply services in Leizhou City, Guangdong Province, the PRC and an amount of HK$1,500,000 which represented deposit paid by the Group in relation to potential acquisition of equity interests in certain PRC entities engaging in the provision of water supply services in Qingyuan City, Guangdong Province, the PRC.

In the light of the increasing uncertainty as to the completion of the equity joint venture/acquisition and the recoverability of the aforesaid deposit, and taking into consideration the advice from legal advisors of the Group, the Directors have made full provision in respect of the deposits during the current interim period.

13. TRADE AND OTHER RECEIVABLES

	At 30 September 2009 (Unaudited) *HK$'000*	At 31 March 2009 (Audited) *HK$'000*
Trade receivables	26,564	27,068
Retention receivables	20,792	18,487
Prepaid land lease payments	1	2
Prepayments and deposits	8,264	6,319
Other receivables	24,379	18,164
	80,000	70,040
Less: Retention receivables included under non-current assets	(10,964)	(16,285)
	69,036	53,755

The ageing analysis of trade receivables (based on invoice date) as at the balance sheet date is as follows:

	At 30 September 2009 (Unaudited) *HK$'000*	At 31 March 2009 (Audited) *HK$'000*
Within 3 months	26,564	27,065
4 to 6 months	–	2
7 to 9 months	–	1
10 to 12 months	–	–
Over 1 year	–	–
	26,564	27,068

Credit period granted to customers of contract works is normally 30 to 60 days. Application for progress payments of contract works is made on a regular basis. Credit period granted to customers of water supply business is normally 30 days.

14. TRADE AND OTHER PAYABLES

Details of the trade and other payables including ageing analysis of trade payables (based on invoice date) are as follows:

	At 30 September 2009 (Unaudited) *HK$'000*	**At 31 March 2009** (Audited) *HK$'000*
Trade payables		
Within 3 months	28,798	41,243
4 to 6 months	5,040	7,128
7 to 9 months	318	508
10 to 12 months	154	1,418
Over 1 year	4,220	897
	38,530	51,194
Retention payables	–	1,805
Other payables and accruals	17,281	10,874
	55,811	63,873

15. BORROWINGS

	At 30 September 2009 (Unaudited) *HK$'000*	At 31 March 2009 (Audited) *HK$'000*
Current		
Bank loans, secured *(note (a))*	6,625	141,771
Finance lease liabilities *(note (b))*	709	2,363
	7,334	144,134
Non-current		
Bank loans, secured *(note (a))*	15,000	15,000
Finance lease liabilities *(note (b))*	677	201
	15,677	15,201
Total borrowings	23,011	159,335
Analysed into:		
Bank loans repayable		
Within one year	6,625	141,771
In the second year	15,000	15,000
	21,625	156,771
Other borrowings repayable		
Within one year	709	2,363
In the second year	677	201
	1,386	2,564
	23,011	159,335

The carrying amount of bank and other borrowings approximates their fair value.

15. BORROWINGS *(Continued)*

Notes:

(a) Bank loans amounting to HK$21,625,000 (At 31 March 2009: HK$156,771,000) are secured by the corporate guarantees issued by the Company and of which HK$15,625,000 (At 31 March 2009: HK$123,771,000) are secured by charges over bank deposits amounting to HK$32,351,000 (At 31 March 2009: HK$32,297,000). Apart from this, bank loans amounting to HK$15,625,000 (At 31 March 2009: HK$81,421,000) is secured by the proceeds on civil engineering contracts.

(b) The Group leases certain of its motor vehicles and machinery and these leases are classified as finance leases having remaining lease terms ranging from one to three years. As at 30 September 2009, the total future minimum lease payments under finance leases and their present value were as follows:

	At 30 September 2009 (Unaudited) *HK$'000*	**At 31 March 2009** (Audited) *HK$'000*
Total minimum lease payments		
Due within one year	767	2,399
Due in the second year	491	207
Due in the third to fifth years, inclusive	212	–
	1,470	2,606
Less: future finance charges on finance leases	(84)	(42)
Present value of finance lease liabilities	1,386	2,564
Present value of financial lease liabilities		
Due within one year	709	2,363
Due in the second year	455	201
Due in the third to fifth years, inclusive	222	–
	1,386	2,564
Less: portion due within one year included under current liabilities	(709)	(2,363)
Non-current portion included under non-current liabilities	677	201

15. BORROWINGS *(Continued)*

(c) Other information about the borrowings:

	Effective interest rate per annum at period/year end					
	At 30 September 2009			At 31 March 2009		
	Original currency	Floating rate	Fixed rate	Original currency	Floating rate	Fixed rate
Bank loans	HK$	1.70% - 2.72%	–	HK$	1.40% - 3.20%	–
Finance lease liabilities	HK$	–	2.80% - 4.00%	HK$	2.02% - 2.09%	3.25% - 4.00%

16. SHARE CAPITAL

	At 30 September 2009 (Unaudited)			At 31 March 2009 (Audited)		
	Par value	Number of ordinary shares	Nominal value	Par value	Number of ordinary shares	Nominal value
	HK$		*HK$'000*	*HK$*		*HK$'000*
Authorised						
Balance at beginning and end of the period/year	0.05	2,000,000,000	100,000	0.05	2,000,000,000	100,000
Issued and fully paid						
Balance at beginning of the period/year	0.05	800,980,000	40,049	0.05	930,780,000	46,539
Shares issued upon exercise of share options	0.05	1,500,000	75	–	–	–
Repurchase of shares	–	–	–	0.05	(129,800,000)	(6,490)
Balance at end of the period/year	0.05	802,480,000	40,124	0.05	800,980,000	40,049

17. SHARE-BASED COMPENSATION

The movement of the share options granted by the Company during the current interim period are as follows:

2009			**Number of share options**				
Grantees	**Options grant date**	**Exercise price per share**	**At 1 April 2009**	**Granted**	**Exercised**	**Forfeited**	**At 30 September 2009**
		HK$	*'000*	*'000*	*'000*	*'000*	*'000*
Directors	17 April 2007	0.975	1,200	–	–	(1,200)	–
	18 February 2009	0.148	8,000	–	–	–	8,000
	25 August 2009	0.385	–	4,800	–	–	4,800
			9,200	4,800	–	(1,200)	12,800
Employees	4 April 2007	0.600	1,700	–	–	(1,700)	–
	17 May 2007	1.420	400	–	–	(400)	–
	5 October 2007	0.812	2,050	–	–	(1,125)	925
	18 February 2009	0.148	8,000	–	(1,500)	–	6,500
	25 August 2009	0.385	–	9,300	–	–	9,300
			12,150	9,300	(1,500)	(3,225)	16,725
Suppliers of services or goods	26 March 2007	0.445	9,000	–	–	(9,000)	–
	4 April 2007	0.600	13,400	–	–	(13,400)	–
	5 October 2007	0.812	8,500	–	–	(300)	8,200
	18 February 2009	0.148	48,000	–	–	–	48,000
	25 August 2009	0.385	–	1,800	–	–	1,800
			78,900	1,800	–	(22,700)	58,000
Total			100,250	15,900	(1,500)	(27,125)	87,525
Weighted average exercise price (HK$ per share)			0.328	0.385	0.148	0.588	0.260

17. SHARE-BASED COMPENSATION *(Continued)*

2008

			Number of share options				
Grantees	**Options grant date**	**Exercise price per share**	**At 1 April 2008**	**Granted**	**Exercised**	**Forfeited**	**At 30 September 2008**
		HK$	*'000*	*'000*	*'000*	*'000*	*'000*
Directors	17 April 2007	0.975	1,200	–	–	–	1,200
Employees	4 April 2007	0.600	1,700	–	–	–	1,700
	17 April 2007	0.975	300	–	–	–	300
	17 May 2007	1.420	440	–	–	(40)	400
	5 October 2007	0.812	3,800	–	–	(350)	3,450
			6,240	–	–	(390)	5,850
Suppliers of services or goods	26 March 2007	0.445	9,000	–	–	–	9,000
	4 April 2007	0.600	13,400	–	–	–	13,400
	5 October 2007	0.812	8,750	–	–	(250)	8,500
			31,150	–	–	(250)	30,900
Total			38,590	–	–	(640)	37,950
Weighted average exercise price (HK$ per share)			0.657	–	–	0.850	0.654

On 25 August 2009, 15,900,000 share options were granted to certain directors, employees and suppliers. Those options vest on the date of grant and are exercisable from the date of acceptance of the options up to 31 August 2012.

17. SHARE-BASED COMPENSATION *(Continued)*

The fair value of the share options granted during the current interim period is determined by an independent valuer using the Black-Scholes option pricing model. Details of the inputs to the model are as follows:

Share price (HK$ per share)	0.385
Exercise price (HK$ per share)	0.385
Expected volatility (%)	87.04% - 102%
Risk-free interest rate (%)	0.16% - 0.522%
Dividend yield (%)	0%
Expected life of option (years)	0.5 - 2.0

Expected volatility is determined by reference to the weekly share price movement of the Company for the period from 1 August 2008 to 28 August 2009. Risk-free interest rate represents the yields to maturity of Hong Kong Exchange Fund Note with respective terms to maturity as at the valuation date. The expected life of option is determined based on management's best estimates for the effects of non-transferability of the options, exercise restrictions and behavioural considerations.

The amount of share-based compensation arising from granting the share options during the current interim period was HK$2,289,000. The share-based compensation in respect of the share options granted to the directors and employees amounting to HK$2,030,000 and to consultants amounting to HK$259,000 were recognised as administrative expenses. The corresponding amount of HK$2,289,000 has been credited to the share option reserve. No liabilities were recognised as those are equity-settled share-based payment transactions.

During the current interim period, 27,125,000 share options which were granted to directors, consultants and employees were forfeited and corresponding share option expenses of HK$3,411,000 was transferred from share option reserve to retained profits.

The number of outstanding share options which are exercisable as at 30 September 2009 was 87,525,000 (30 September 2008: 35,925,000) which represent approximate 10.91% (30 September 2008: 3.87%) of the Company's shares in issue on that date. The exercise in full of these share options would result in the issue of 87,525,000 additional ordinary shares of the Company including additional share capital of HK$4,376,000 and share premium of HK$18,405,000.

18. OPERATING LEASE COMMITMENTS

The future aggregate minimum lease rental payable under a non-cancellable operating lease in respect of land and buildings as of 30 September 2009 was as follows:

	At 30 September 2009 (Unaudited) *HK$'000*	At 31 March 2009 (Audited) *HK$'000*
Within one year	1,449	1,523
In the second to fifth years, inclusive	725	1,450
	2,174	2,973

The Group leases certain properties under the operating lease. The leases run for an initial period of two year to three years, with an option to renew the lease and renegotiate the terms at the expiry date. The leases do not include any contingent rentals.

19. CONTINGENT LIABILITIES AND LITIGATIONS

As at 30 September 2009, a number of lawsuits and claims arising from the normal course of business were lodged against the Group which remain outstanding as at the date of this report. Claim amounts are not specified in the applications of these lawsuits and claims. In the opinion of the Directors, sufficient insurance policies are maintained to cover the losses, if any, arising from these lawsuits and claims and therefore the ultimate liability under these lawsuits and claims would not have a material adverse impact on the financial position of the Group.

Apart from the above, a writ of summons dated 15 July 2009 was served to a subsidiary of the Company as defendant in respect of two claims of two completed projects from a sub-contractor with claim amount of approximately HK$9.5 million in aggregate. On 3 December 2009, a mediation notice has been received from the solicitor of the sub-contractor in respect of the two claims. As assessed by the Directors, the claims from the sub-contractor will unlikely result in significant financial impact on the Group and accordingly, no provision is made in this regard.

20. POST BALANCE SHEET EVENT

On 12 November 2009, the Group entered into a memorandum of understanding with a third party vendor in respect of acquiring certain equity interest in a company which has beneficiary interests in certain mining sites located in Mongolia with coal, gold and copper deposits ("the Proposed Acquisition"). The Proposed Acquisition is still in progress as at the date of this report.

21. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following related party transactions:

(i) Transactions with a related company

	Six months ended 30 September 2009 (Unaudited) *HK$'000*	Six months ended 30 September 2008 (Unaudited) *HK$'000*
Rental expenses for office premises paid to Grand Media Limited	492	492

The directors of the Company, Mr. Yuen Chow Ming, Mr. Yuen Wai Keung and Mr. So Yiu Cheung, have equity interests of 34%, 33% and 33%, respectively, in the above related company.

(ii) Key management personnel

Included in staff costs are key management personnel compensation which comprises the following categories:

	Six months ended 30 September 2009 (Unaudited) *HK$'000*	Six months ended 30 September 2008 (Unaudited) *HK$'000*
Salaries, allowances and benefits in kind	4,370	3,569
Equity-settled share option expenses	907	153
Post-employment benefits	67	65
	5,344	3,787

4. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP FOR EACH OF THE THREE FINANCIAL YEARS ENDED 31 MARCH 2009 AND THE SIX MONTHS ENDED 30 SEPTEMBER 2009

A. FOR THE YEAR ENDED 31 MARCH 2007

FINANCIAL HIGHLIGHTS

For the year ended 31 March 2007, the Group recorded revenue of HK$519.9 million, representing an increase of 97.1% (2006: HK$263.8 million). Gross profit increased by 13.3% to HK$80.2 million (2006: HK$70.8 million). Profit for the year amounted to HK$34.3 million (2006: HK$38.6 million) was arrived at after the recognition of share option expense of HK$3.3 million (2006: nil) which was determined based on the fair value of the share options granted by the Company to certain consultants and sub-contractors. Profit for the year excluding such expense was HK$37.6 million. Basic earnings per Share amounted to HK5.362 cents (2006: HK7.916 cents, as restated). The Board recommends the payment of final dividends of HK1.12 cents per Share for the year ended 31 March 2007.

BUSINESS REVIEW

Waterworks projects from the Water Supplies Department ("**WSD**") remained the major source of the Group's income during the year under review. Around 92% of the Group's revenue was generated from undertaking WSD's waterworks projects in the capacity as main contractor or sub-contractor. Moving forward, the Group is expecting more revenue contribution from its diversification of business into the PRC's waterworks market.

During financial year ended 31 March 2007, there was no material acquisition and disposal of subsidiaries and associated companies.

REVENUE

During the year under review, the revenue generated from maintenance contracts amounted to HK$438.4 million (2006: HK$189.3 million), contributing approximately 84.3% (2006: 71.8%) of the Group's total revenue. The increase in maintenance contracts revenue was mainly attributable to the commencement of a threeyear term contract of waterworks installations in the New Territories East district (contract number 1/WSD/06(E)) during the year. In addition, there was a full year revenue contribution from the maintenance contracts in Kowloon district (contract number 1/WSD/05(K)) and Lantau and the outlying islands (contract number 1/WSD/ 05(L)) during the year under review. These two maintenance contracts only reflected half-year revenue last financial year since they had commenced in September 2005.

PROFIT MARGIN AND COST CONTROL

During the year under review, the Group's gross profit margin was 15.4% (2006: 26.8%). Despite encouraging performance on revenue, the Group faced increased subcontracting charges and a surge in material costs (particularly in steel and pipework) and site overheads brought about by improvement in the market phenomenon and the Hong Kong economy. Furthermore, the profit margin for contract works carried out in urban districts were squeezed since more human resources and equipment are required. Despite this high cost pressure, the Group still committed to serve the community with efficient and high quality services, especially in emergency repair works, which have been appreciated by WSD during the year under review. Having such track records will probably increase the Group's chance of securing future tenders. The management believes the full year revenue contribution from the maintenance contract in the New Territories East district (contract number 1/WSD/06(E)) will contribute to the overall gross margin level in the coming financial years.

To cope with the increase in contract costs, the Group has been exerting efforts to implement a stringent cost control policy through exploiting materials sourcing opportunities in the PRC. The Group sees gradual transition of materials sourcing from the PRC a solution to reduce material costs and ease the pressure on the Group's profit margins. In addition, in order to improve efficiency, the Group will endeavor to achieve technology advancement by upgrading its machinery and improving labour skills.

OPERATING EXPENSES

During the year under review, the Group's administrative expenses amounted to HK$35.4 million (2006: HK$24.2 million). The Group's administrative expenses mainly consisted of consultancy fees, legal and professional fees, staff costs (including Directors' emoluments) and depreciation expenses. The increase in administrative expenses was mainly due to the increase in depreciation expenses and staff costs. The increase in depreciation expenses was directly attributable to the increase in acquisition of property, plant and equipment for the new projects. Meanwhile, higher staff costs were incurred as more human resources were required to meet the continual growth in the Group's business.

CAPITAL EXPENDITURE

During the year under review, the Group's capital expenditure amounted to HK$16.6 million (2006: HK$16.0 million). The amount was mainly spent on the acquisition of plant and machinery, as well as motor vehicles for new contracts.

LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, the Group financed its operations mainly through a combination of shareholders equity, internally generated cashflows and bank borrowings. As at 31 March 2007, total assets amounted to HK$356.9 million (2006: HK$210.2 million), current liabilities amounted to HK$171.6 million (2006: HK$58.4 million) and non-current liabilities amounted to HK$24.6 million (2006: HK$17.1 million). The Group's net assets amounted to HK$160.8 million (2006: HK$134.7 million).

As at 31 March 2007, cash and cash equivalents of the Group amounted to HK$11.5 million (2006: HK$97.1 million). With the increase in the number and the size of contracts and additional administrative requirements implemented by customers on payment application process, amounts due from customer of contract works has grown and this has exerted pressure on the Group's working capital. To mitigate this pressure, the Group has obtained more banking facilities to strengthen its financial base. The Group's total available credit facilities increased to HK$146.7 million. The utilised banking facilities were secured by pledged deposits of HK$24.2 million. In addition, the net book amount of property, plant and equipment held under financial leases was HK$11.0 million. The Group's total borrowings as at 31 March 2007 amounted to HK$130.1 million (2006: HK$27.3 million). The borrowings to be repayable within one year amounted to HK$108.6 million (2006: HK$12.3 million). As at 31 March 2007, the Group's gearing ratio (which is based on the amount of total bank borrowings and obligations under finance leases divided by total assets multiplied by 100%) amounted to 36.5% (2006: 13.0%) as a result of the increase in bank borrowings. As at 31 March 2007, the Group's current ratio was amounted to 1.9 (2006: 3.2). The Directors believe the Group's gearing is still maintained at a healthy level under the expansion of the Group.

Subsequent to the year-end date, the Company carried out two equity fund raising activities whereby a total of 256,000,000 new Shares (adjusted for the effect of the shares subdivision which became effective on 12 June 2007) were issued with total gross proceeds of HK$247.0 million raised. These capital resources provide a substantial support for the Group to explore investment opportunities in the PRC waterworks market.

As most receipts and expenses were in Hong Kong Dollars, the Group's exposure to risk resulting from changes in foreign currency exchange rate was minimal. No hedge was performed for the year ended 31 March 2007.

There was no material contingent liabilities as at 31 March 2007. Please refer to Note 26 of the financial statements for the year ended 31 March 2007 for details of litigation.

HUMAN RESOURCES

As at 31 March 2007, the Group employed approximately 400 employees (as at 31 March 2006: 230 employees) and over half of them are direct labour. The related staff costs, including Director's emoluments, amounted to HK$61.9 million (2006: HK$35.0 million).

Employees are remunerated according to the nature of the job and market trend with discretionary bonus, which is distributable based on the performance of the Group and the individual Directors and staff. The Group also provides in-house and external training programmes which are complementary to certain job functions. The Directors believe that a competitive remuneration scheme and career development opportunities provide incentives for employees' personal development and contributions to the Group.

PROSPECTS

Riding on its solid foundation in water services industry in Hong Kong, the Group is rapidly transforming itself to tap into the PRC market for expansion opportunities. Under the huge budget for environmental protection and water conservation as suggested in the National 11th Five-Year Plan of the PRC's Government and the further open-up of utility service market by CEPA in June 2007, the Group sees a great opportunity to expand into this vast market.

Following the completion of a share placement after year end, the Group has formed a strategic alliance with an experience market player, China Water Affairs Group Limited and widen its local network in the PRC. In June 2007, the Group has entered into a memorandum of understanding to set up a joint venture company with an independent third party for its participation in water supply business in Guangxi Province, China. The management is also currently under negotiation with local authorities and private entities for the Group's investments in other potential provinces. The Group will seize every opportunity in securing water-related civil engineering projects, investing in water supply and sewage treatment business in the PRC.

With the growing economy in the PRC and Hong Kong, the Board is optimistic about the Group's development in the coming years and will continue to strive its best to seek for rewarding investment opportunities.

B. FOR THE YEAR ENDED 31 MARCH 2008

FINANCIAL HIGHLIGHTS

For the year under review, the Group recorded revenue of HK$648.5 million, representing an increase of 24.7% over last year (2007: HK$519.9 million). After the recognition of share option related expenses of HK$5.3 million, profit for the year amounted to HK$24.9 million. Basic earnings per Share amounted to HK2.845 cents. The Board proposed to pay a final dividend of HK0.80 cent per Share.

BUSINESS REVIEW

The Group has established a formidable reputation for excellence in Hong Kong water service market. Being a major water service provider in the Territory, Ming Hing derives over 94% of its revenue from projects of water-related services with the WSD of the Hong Kong SAR Government (the "Government") being the ultimate customer. Taking the next logical step, the Group has begun to penetrate the lucrative PRC market, with the year under review representing a milestone year. After placing concerted efforts into tackling the China arena, the PRC operations began to contribute to the Group's total revenue in the review year. As the Group targets to further expand its operations through acquisitions in the PRC, greater relevant revenue intake from the PRC business is expected in the future.

To highlight the Group's commitment in the water-related business, the Company's name has been changed from "Ming Hing Holdings Limited 明興控股有限公司" to "Ming Hing Waterworks Holdings Limited 明興水務控股有限公司" pursuant to a special resolution passed on 11 June 2007.

PRC Market

The shortage and pollution of water resources have become a growing threat to the health of the PRC population. At present, over 400 cities (including Beijing and Tianjin) of the 669 PRC cities encounter the problem of water shortage, while 300 million people drink water with quality below the national standard, not to mention the absence of comprehensive sewage systems. In 2004, the State Council of the PRC declared in "Circular of the General Office of the State Council on Pushing Forward the Reform of Water Price and Promoting Economy of Water Use and Protection of Water Resources" a series of measures to improve the allocation of water resources, adjust water demand, promote the prevention and control of water pollution, encourage water conservation, and increase efficiency of utilization through the price leverage mechanism.

According to the National Bureau of Statistics of the PRC, the domestic water price among 36 large and medium-sized cities has risen 18% from 2004 to 2007. For water conservation purpose, the PRC government has announced its dedication to accelerate water price reform and upward price adjustment is expected to begin. These measures, together with the opening of the PRC water market to foreign water engineering service providers, will create sound business opportunities for the Group.

In January 2008, the Trade and Industry Department of the Government issued to a wholly-owned subsidiary of the Company the Certificate of Hong Kong Service Supplier (the "**Certificate**") as stipulated in the Mainland and Hong Kong Closer Economic Partnership Arrangement and its Supplements. With the Certificate, the Group will be able to bid water supply and drainage projects and apply its advanced technology, profound experience and expertise in the PRC market.

During the year under review, the Group has made several key steps toward establishing its position in China's waterworks sector. In September 2007, the Group acquired the assets of the Hunan Province Ningxiang County Water Supply Company ("**Ningxiang Water**") for a consideration of RMB90.08 million. Ningxiang Water is an exclusive water supply service provider for Ningxiang County, one of the major economic development areas in Changsha City, the capital of Hunan Province. Its existing daily water supply capacity is 95,000 tons, providing water service for a population of over 200,000, which is expected to grow steadily in the foreseeable future. To enhance cost efficiency and overall operational effectiveness, the management has been closely examining the Ningxiang water plant on its operational and management level. Restructuring activities focusing on organizational structure, management style and engineering efficiency have been commenced. Consequently, relevant operating results started to turn around into profit in the review year. Such efforts are most timely as water demand is expected to rise with the launch of a large-scale residential property as well as continual industrial development in Ningxiang.

To further expand its footprint in the PRC market, the Group signed the memorandum of understanding with an independent third party to form a joint venture company which will principally be engaged in the water supply business in Leizhou City, Guangdong Province, the PRC. In May 2008, Ming Hing has announced its acquisition of interests in a water treatment plant to provide associated services in Qingyuan City of Guangdong Province, which is a fast developing area adjacent to Guangzhou.

In March 2008, an announcement regarding the establishment of joint venture with China Water Affairs Group Limited ("**China Water**") was made. To leverage the support of China Water, the Group aims to further explore more investment opportunities in the PRC.

Since the Group was still going through the investment stage of its PRC business during the year under review, contributions from PRC operations are expected to blossom in the coming years.

Hong Kong Market

With its profound experience in the waterworks engineering industry in Hong Kong, the Group has been able to sustain its leading position in the market and achieve steady growth for the Group's Hong Kong operations over the years.

As efforts in China intensified, the Group's operations in Hong Kong continued to represent a stable income source for fuelling further growth. During the year under review, revenue generated from maintenance contracts amounted to HK$588.2 million (2007: HK$438.4 million), contributing approximately 90.7% (2007: 84.3%) of the Group's total revenue. The increase in maintenance contracts revenue was mainly attributable to the full year revenue contribution from the maintenance contract in the New Territories East district (contract number: 1/WSD/06(E)) which commenced since September 2006. For the year under review, gross profit increase to HK$83.8 million (2007: HK$80.2 million). However, stemming from rising operating costs, especially for raw materials as well as subcontracting and staff cost, gross profit margins decline to 12.9% (2007: 15.4%).

To alleviate such high cost pressure in the Territory, the Group has been implementing stringent cost control through direct sourcing of raw materials, centralization of procurement functions and reforming contract operations in order to enhance the effectiveness of staff and overhead costs.

While existing contracts have been undergoing in good performance and progress, four new contracts have been awarded to the Group from the Government during the reporting year. Specifically, the four contracts are: water mains replacement and rehabilitation project in Tai Po and Fanling (contract number: 21/WSD/06); construction of the To Shek Salt Water Service Reservoir and Ma On Shan No. 3 Salt Water Service Reservoir (contract number: 11/WSD/07); and two landslip prevention projects in Tuen Mun, Eastern New Territories and Outlying Islands (contract number: GE/2006/19 and GE/2006/ 35). The total contract sum of these new contracts amounted to HK$359.8 million.

Awards and Recognition

With over 40 years of experience in the water engineering service industry, the Group is widely recognized for its expertise and professionalism. The Group was recognized as the Best Landslip Preventive Measures Contractor of 2007 by the Geotechnical Engineering Office, Civil Engineering & Development Department of the Government. The Group was also presented the Occupational Health Award 2007/2008 in the Hearing Conservation Category (Merit Award) of its Term Contract for Waterworks in District K – Kowloon by the Occupational Safety & Health Council and the Labour Department of the Government. Besides, the Group won three Meritorious Prizes under the Construction Industry Safety Award Scheme 2007/2008, in the Safety Teams Category as well as the Civil Engineering Sites Category.

PROSPECTS

Exploring investment opportunities in China

According to the PRC government's National Eleventh Five-Year Plan, a significant amount of financial resources will be directed towards environmental protection and water conservation. With the liberalization of the country's water market and promotion of water price reforms, enormous opportunities will therefore be available to quality water service providers. To capitalize on the opportunities presented, the Group will aim to bolster its presence in the country, in particular, directing investments towards Guangdong Province, Guangxi Province as well as other areas of Hunan Province.

The Group will continue its investment to further extend its footprint in the PRC market, such as to enhance its water and sewage treatment capabilities by acquiring relevant plants in the country. Furthermore, the Group will also continue to explore materials sourcing opportunities in the Mainland so as to enhance existing procurement procedures with an aim of achieving margin improvement.

Benefiting from favourable government policies in Hong Kong

The Government's commitment to enhancing the infrastructure network of Hong Kong was reaffirmed during the 2007/08 Policy Address. Confirming 10 large-scale projects with a combined contract value of approximately HK$250 billion, such developments will inherently benefit the water service engineering sector, both immediately and in the long-term. The Government's Water Mains Replacement and Rehabilitation Program are also favourable towards further consolidation of the Group's leading role in the Hong Kong market. Being a major water services provider in Hong Kong, the Group stands to significantly benefit from these upcoming projects. While striving to enhance our revenue stream, the Group is considering several ways for maintaining margin levels in this challenging operating environment. Among the steps the Group will take include streamlining operational procedures and reinforcing controls over operating costs. The Group will ride on its industry expertise and experience to secure more projects with promising returns.

The management is confident that the Hong Kong operations will continue to provide steady support to the current business development program underway in the PRC, which will become a major growth driver that delivers long-term benefits for the Group. The Group will continue to look for investment opportunities with sound potential to sustain its development in the long run.

CAPITAL RAISING AND EXPENDITURE

In view of the rapid expansion in the PRC market, the Group carried out two equity fund raising activities during the review year, whereby a total of 256,000,000 new Shares (adjusted for the effect of the shares subdivision which became effective on 12 June 2007) were issued with total gross proceeds of HK$247.0 million raised, of which HK$165.0 million to be spent on potential acquisition of water projects in the PRC. These capital resources provided a substantial support for the Group's expansion and development in the PRC waterworks market.

For the year ended 31 March 2008, the Group's total capital expenditure was HK$83.8 million (2007: HK$16.6 million), of which HK$10.0 million was spent on the acquisition of property, plant and equipments while HK$33.2 million was paid as a partial consideration on the acquisition of Ningxiang Water.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2008, cash and cash equivalents increased to HK$172.9 million (2007: HK$11.5 million). The Group's total borrowings amounted to HK$249.3 million (2007: HK$130.1 million), which were secured by pledged deposits of HK$28.9 million made against certain bank loans and a performance bond. In addition, the net book amount of property, plant and equipment held under financial leases was HK$9.3 million. . The gearing ratio, calculated as a percentage of net debt to equity, is 10.8% (2007: 58.7%) as at 31 March 2008. The current ratio is 2.2 times (2007: 1.9 times).

With the cash and cash equivalents as at 31 March 2008 and available banking facilities, the Group will have sufficient working capital to meet with its funding requirement.

As most receipts and expenses were in functional currency of each entity in the Group, the Group's exposure to risk resulting from changes in foreign currency exchange rate was minimal. No hedge was performed for the year ended 31 March 2008.

There was no material contingent liabilities as at 31 March 2008. Please refer to Note 31 of the financial statements for the year ended 31 March 2008 for details of litigation.

HUMAN RESOURCES

As at 31 March 2008, the Group employed approximately 670 employees (2007: 400 employees), included 190 employees in the operations in the PRC, and over half of them are direct labor. Total staff costs, including Directors' emoluments, for the year under review amounted to HK$90.3 million (2007: HK$61.9 million). The employees were remunerated according to the nature of the job and market trend with discretionary bonus, which is distributable based on the Group's operating results and individual performance.

C. FOR THE YEAR ENDED 31 MARCH 2009

FINANCIAL HIGHLIGHTS

For the year under review, the Group recorded revenue of HK$660.9 million, representing an increase of 1.9% over last year (2008: HK$648.5 million). Gross profit experienced a decline of 17.2% to HK$69.4 million compared with HK$83.8 million recorded in FY2008. Profit attributable to equity holders of the Company likewise dipped to HK$6.4 million, down 74.3%. Basic earnings per share amounted to HK0.713 cents. No dividend has been declared by the Company for year ended 31 March 2009.

BUSINESS REVIEW

Hong Kong Market

Possessing over 40 years of experience in Hong Kong's water supply services sector, our business in Hong Kong continued to achieve stable growth. With the Hong Kong SAR Government (the "Government") stepping up its implementation of the 10 large-scale infrastructure projects as part of the 2008-09 Policy Address, we have dedicated efforts to capitalise on this opportunity. Furthermore, the Water Mains Replacement and Rehabilitation Programme also offered immense prospects for the Group to generate greater revenue. Accordingly, we actively submitted tenders during the year and our reputation in the industry has provided important leverage for winning several contracts.

During the year under review, our Hong Kong operation generated revenue from maintenance contracts of HK$522.6 million, down 11.2% year on year (2008: HK$588.2 million), accounting for approximately 79.1% (2008: 90.7%) of the Group's total revenue. Despite a decline in revenue from maintenance contracts, which was due to the completion of two projects in 2008, our Hong Kong business is replenished by new contracts won for landslip prevention, and water mains replacement and rehabilitation.

The two new landslip preventive measures works contracts won from the Civil Engineering and Development Department ("**CEDD**") are as follows:

– 10 year extended LPM project, phase 8, package D – landslip preventive works for slopes and retaining walls in Kowloon and the New Territories (contract number: GE/2008/15)

– 10 year extended LPM project, phase 8, package E – landslip preventive works for slopes in the New Territories and Outlying Islands (contract number: GE/2008/08)

The combined value of the two contracts is approximately HK$120 million in total.

The two new water mains replacement and rehabilitation project contracts won from the WSD are as follows:

– Replacement and rehabilitation of water mains, stage 3 – mains in East Kowloon (package A) (contract number: 7/WSD/08)

– Replacement and rehabilitation of water mains, stage 3 – mains on Hong Kong Island South and Outlying Islands (contract number: 18/WSD/08)

The two contracts will cover about 150 kilometres of aged water mains valued at HK$1 billion in total.

The Group did recorded a drop in gross profit to HK$69.4 million (2008: HK$83.8 million) and gross margin declined to 10.5% (2008: 12.9%), mainly due to the increases in raw material and labour costs. Specifically, pipes and fittings, asphalt, concrete, chemicals and steel rose in cost by over 10% during the year. Thus, the Group has commenced preparation for the implementation of an Enterprise Resource Planning (ERP) system that will improve procurement, ordering process, and inventory control. A department in the PRC has been established that allows us to directly source more raw materials, parts and components. Since the beginning of 2009, the Group has directly sourced various pipes and valves, and more items will be directly procured from the PRC to minimise costs.

The Group received recognition for its professionalism and expertise from several Government departments during the year. The Geotechnical Engineering Office, the Civil Engineering and Development Department of the HKSAR named Ming Hing "Best Landslip Preventive Measures Contractor" for the second consecutive year. The Group was one of the recipients of the "Considerate Contractors Site Awards", issued by the Development Bureau. In addition, the Group was awarded with the "Construction Industry Safety Award Scheme – Meritorious Prize" and "Occupational Health Award – Merit Award" from the Labour Department and the Occupational Safety and Health Council respectively.

The PRC Market

The acquisition of the Qingyuan water treatment plant was completed in August 2008 and capital injected to this water treatment plant up to the balance sheet date amounted to RMB9.5 million (equivalent to approximately HK$10.8 million). With the industrial development in the area whereby water demand will be increased drastically, the Group is confident that by improving efficiency and better management of operating costs, the water treatment plant will become profitable in the near future.

Subsequent to this investment, the Group disposed of its water supply plant in Ningxiang. In October 2008, the Group announced to dispose of Ming Hing Waterworks Engineering (PRC) Limited, the entire equity holder of Ming Hing Waterworks (Changsha) Company Limited ("**Ming Hing (Changsha)**"), to China Water Affairs Group Limited ("**China Water**") (the "**Disposal**"). Ming Hing (Changsha) has been principally providing water supply services in Ningxiang County, Changsha City, Hunan Province. However, with local authorities pushing for rapid water infrastructure development in order to keep pace with extensive growth in the area, the Group felt that the substantial investment required was not congruent with current economic conditions. Seeking to mitigate its investment risk, the Group subsequently approached China Water which agreed to acquire the entire equity interest in Ming Hing (Changsha). The transaction was completed on 31 December 2008, freeing the Group from potentially heavy capital commitments. The management believes the Disposal allows us to remain financially flexible and have the liquidity to acquire more suitable water treatment plants in the future. The consideration for disposing Ming Hing (Changsha) was offset against the consideration for another transaction to repurchase 128 million ordinary shares of the Company held by China Water.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2009, cash and cash equivalents decreased to HK$63.8 million (2008: HK$172.9 million). The Group's total borrowings decreased to HK$159.3 million (2008: 249.3 million), which were secured by pledged deposits of HK$32.3 million. The gearing ratio, calculated as a percentage of net debt to equity, was 16.5% (2008: 10.8%) as at 31 March 2009. The current ratio was 2.6 times (2008: 2.2 times).

Waterworks projects from the Water Supplies Department ("WSD") remained the major sources of the Group's income during the year ended 31 March 2009. Around 88% of the Group's revenue was generated from undertaking WSD's waterworks projects in the capacity as main contractor or sub-contractor.

HUMAN RESOURCES

As at 31 March 2009, the Group employed approximately 336 employees (2008: 670 employees) and more than half of them were on permanent hire. Total staff costs, including Directors' emoluments, for the year ended 31 March 2009 amounted to HK$86.1 million (2008: HK$90.3 million). The employees were remunerated to the nature of the job and market trend with discretionary bonus, which was distributable based on the Group's operating results and individual performance.

As at 31 March 2009, bank deposit amounted to HK$32.3 million is pledged against certain bank loans and a performance bond. In addition, the net book amount of property, plant and equipment held under financial leases was HK$7.3 million.

No material investments or capital assets were confirmed as at annual report date (17 July 2009).

As most receipts and expenses were in functional currency of each entity in the Group, the Group's exposure to risk resulting from changes in foreign currency exchange rate was minimal. No hedge was performed for the year ended 31 March 2009.

There was no material contingent liabilities as at 31 March 2009. Please refer to Note 32 of the financial statements for the year ended 31 March 2009 for details of litigation.

PROSPECTS

Hong Kong Market – A Steady Source of Income

A growing number of Hong Kong residents have expressed eagerness for the Government to accelerate implementation of the 10 large-scale infrastructure projects. As water service engineering is a key element of infrastructure engineering works, and the Group is among a select few that possess such experience in Hong Kong, the Group is in an extremely strong position to benefit from these projects. The Government's Water Mains Replacement and Rehabilitation Programme presents another important opportunity for its Hong Kong operation, as its experience is substantial. The Group is therefore optimistic that its tender submissions to the Government will achieve positive results and the income derived will support the development of our PRC business, thus spurring further growth.

Aside from its civil engineering business, the Group is currently in talks with several material suppliers with the goal of becoming their sole agent, distributing waterworks materials in Hong Kong and the PRC. This venture can open new possibilities and income streams as well as allow the Group to benefit from lower cost materials.

China Market – Long-term Growth Driver

Providing optimism for the Group's long-term growth in China is the PRC government's National 11th Five-Year Plan, which alluded to allocating considerable funds for environmental protection and water conservation. Out of the RMB4 trillion stimulus package, RMB350 billion will be spent for this purpose. In addition, liberalisation of the water market and water price reforms create fertile ground for quality water-service providers such as the Group to grow and flourish. With new policies on controlling water pollution also being mandated, this will provide added incentive for the Group to participate in water sewage projects. The Group has also lined up partnership with a membrane expert company in Korea with a view to introducing new technology and cost effective solutions for sewage treatment in China, thus strengthening our competitive advantage.

Since the global economic outlook remains unclear, the Group will adopt a particularly cautious stance toward acquisitions. Discussions on possible business development in the PRC will continue, and the management will explore profitable investment opportunities to maintain the Group's sustained growth.

Possessing the highest level of competence in the water services industry, the Group will leverage its expertise to enhance the Group's presence in the PRC. The Group is convinced that the PRC market will provide a significant source of revenue in the long run and act as catalyst for the Group's future growth.

Efforts to Control Costs and Maintain Margin

Looking forward, it is believed that commodity prices will continue to increase steadily, placing pressure on the Group's profit margins. To alleviate this pressure, the management plans to employ a more diverse range of suppliers and sub-contractors. Establishing a material sourcing company in the PRC will also allow the Group to achieve vertical integration, reduce procurement costs and create a new source of income. Continuous control on staff costs will help optimise our margin as well.

D. FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

BUSINESS REVIEW

During the period under review, the Company remained an active bidder of government projects. Moreover, in ongoing efforts to diversify its business, the proportion of revenue of the Group from replacement and rehabilitation of water mains projects and landslip prevention works have increased, providing the Company with more stable income sources.

However, as two maintenance contracts were completed in 2008 and two newly awarded waterworks maintenance contracts from the WSD only started on 1 September 2009, the Group's turnover for the period was down compared with the same period last year. Furthermore, profit margins for the period were hampered by increases in material and labour costs, hence the Group will step up efforts to control such expenses.

Hong Kong Market

The Hong Kong market remained the Group's main revenue contributor, generating HK$278.2 million during the period under review, and accounting for 99% of total turnover.

For the six months ended 30 September 2009, revenue from the Hong Kong market were mainly derived from 1) the term contract for waterworks District E – New Territories East (contract number: 1/WSD/06(E)); 2) replacement and rehabilitation of water mains, Stage 2, mains in Tai Po and Fanling (contract number: 21/WSD/06); and 3) replacement and rehabilitation of water mains, Stage 3 – mains in East Kowloon (package A) (contract number: 7/WSD/08) that was signed in February 2009.

In July 2009, the Group won two new waterworks maintenance contracts worth over HK$700 million in total. Encompassing the entire New Territories, where more than half of Hong Kong's population resides, the first is a term contract for waterworks District E – New Territories East (contract number: 1/WSD/09(E)), and the second is a term contract for waterworks District W – New Territories West (contract number: 1/WSD/09(W)).

Cost Control Measures

To reduce material cost pressure on its profit margins, the Group implemented the Enterprise Resource Planning (ERP) system in mid–November to help improve procurement, order processing and inventory control.

The PRC Market

The Group completed acquisition of a water treatment plant in Qingyuan, the PRC in the second half of 2008. With robust industrial development taking place close to the plant creating rising demand for water treatment services, and efforts to improve efficiency and better manage operating costs now underway, the water treatment facility is anticipated to contribute profits to the Group in the near future.

FINANCIAL REVIEW

Financial highlights

For the six months ended 30 September 2009, the Group recorded revenue of HK$278.5 million, representing a decrease of 28.1% against the last corresponding period (six months ended 30 September 2008: HK$387.4 million). Loss attributable to owners of the Company was HK$8.7 million (six months ended 30 September 2008: profit attributable to owners of the Company was HK$4.1 million). This was mainly attributed to provision for impairment of prepaid investments in Guangdong Province of HK$3.7 million and decreasing profit margin.

Basic loss per share was HK1.08 cents (six months ended 30 September 2008: basic earnings per share of HK0.44 cents).

Revenue Breakdown by Business

During the period under review, revenue from maintenance contracts for waterworks was HK$174.3 million (six months ended 30 September 2008: HK$292.9 million), accounting for 62.6% of the Group's total revenue (six months ended 30 September 2008: 75.6%). Revenue from water mains replacement and rehabilitation projects increased to HK$46.1 million (six months ended 30 September 2008: HK$39.6 million), accounting for 16.6% of total revenue (six months ended 30 September 2008: 10.2%). Revenue from landslip prevention projects slightly decreased to HK$22.4 million (six months ended 30 September 2008: HK$22.5 million), accounting for 8.0% of total revenue (six months ended 30 September 2008: 5.8%).

Gross Profit

Gross profit dropped by about 67.0% to HK$12.2 million from HK$36.9 million in the last corresponding period due to rising material and labour costs.

Capital Expenditure

During the period under review, the Group spent HK$17.1 million on acquisition of properties, plants and equipment in Hong Kong and the PRC (six months ended 30 September 2008: HK$5.3 million). The Group's capital expenditure increased substantially due to the purchase of motor vehicles and machineries during the review period.

Operating Expenses

During the period under review, the Group's administrative expenses amounted to HK$19.9 million (six months ended 30 September 2008: HK$28.1 million). The amount mainly consisted of legal and professional fees, staff costs (including Directors' emoluments), impairment of prepayment for investments and depreciation expenses. The decrease in administrative expenses was mainly the result of effective control of staff costs and no more administration expense of Changsha water plant was charged in the review period as it was disposed on 31 December 2008.

Liquidity & Financial Resources

For the six months ended 30 September 2009, the Group's capital expenditure was approximately HK$17.1 million. The amount was spent mainly due to the purchase of motor vehicles and machineries. Cash and cash equivalent and pledged bank deposits were HK$81.5 million (as at 31 March 2009: HK$96.1 million). Total borrowings as at the end of the review period were HK$23.0 million (as at 31 March 2009: HK$159.3 million) with certain bank loans repaid during the period. The Group is in a much stronger position, in terms of liquidity, as compared with last year. Its current ratio, being the ratio of current assets to current liabilities, was 6.23 times (31 March 2009: 2.61 times), and its gearing ratio, in terms of total liabilities to total assets, stood at 18.0% (31 March 2009: 37.5%). Improvement of both ratios was owed to faster collection of contract revenue from customers.

During six months ended 30 September 2009, there was no material acquisition and disposal of subsidiaries and associated companies.

As at 30 September 2009, bank deposit amounted to HK$32.4 million was pledged against certain bank loans and a performance bond. In addition, the net book amount of property, plant and equipment held under financial leases was HK$0.3 million.

As most receipts and expenses were in functional currency of each entity in the Group, the Group's exposure to risk resulting from changes in foreign currency exchange rate was minimal. No hedge was performed during the six months ended 30 September 2009.

There was no material contingent liabilities as at 30 September 2009. Please refer to Note 19 of the financial statements for the six months ended 30 September 2009 for details of litigation.

Human Resources

As at 30 September 2009, the Group had approximately 433 employees (as at 31 March 2009: 336 employees) and more than half of them were on permanent hire. Total staff costs, including Directors' emoluments, for the period under review amounted to HK$38.6 million (six months ended 30 September 2008: HK$51.7 million).

The Group remunerates employees according to their job nature and market trend and awards discretionary bonus to employees based on its operating results and individual performance. The Group also provides in-house and external training programmes complementary to certain job functions. The Directors believe offering competitive remunerations and career development opportunities to employees can encourage employees to seek personal development and contribute to the Group.

PROSPECTS

Since the Group obtained two new maintenance contracts in July 2009, in addition to other Water Mains Replacement and Rehabilitation Programme projects won earlier this year, better business performance is expected in the second half of the financial year.

With the Hong Kong government intensifying efforts to implement 10 large-scale infrastructure and water mains replacement and rehabilitation projects, and a new landslip prevention plan is set for launch in 2010, the Group sees ample business opportunities ahead. The Group will duly bid for related projects in the second half year.

Besides, in November 2009, the Group secured a Compact Pipe Installer Licence with "Wavin", the sole global supplier of compact pipes. Since then, it has started to use the compact pipe method for pipe rehabilitation works in a water mains replacement and rehabilitation project (contract number: 7/WSD/08). This trenchless technique can minimise disruption to the public, traffic and the environment, and is more efficient and cost-effective. In the near future, the Group will continue to adopt advanced techniques to complete projects, in turn enable the Group to bid future projects in an advantageous position by leveraging its high level of expertise.

As waterworks maintenance contracts include providing upkeep services for treatment plants, here to present fresh prospects. In view of some treatment plants in Hong Kong failing to operate at their design capacity due to old age and fluctuation in raw water quality, the Group has been retrofitting clarifiers with inclined settler tube technology to enhance their performance. Based on experience gained from similar work completed in its water plant in Hunan, at the end of September 2009 the Group started to retrofit clarifiers at Sha Tin Treatment Works and expects to see at least a 20% increase in output with improved settling water quality. It is expected that this proven method and experience will bring more business opportunities to the Group in the Hong Kong market.

Furthermore, the Group is exploring other new business opportunities with the aim of broadening its income base. In November 2009, the Group announced it has entered into the Memorandum of Understanding with Grand Title Limited regarding a proposed acquisition of interests in five mining sites in Mongolia with coal, gold and copper deposits (Details of the Memorandum of Understanding is set out in the announcement dated 13 November 2009).

With a solid foundation in the water service industry and confidence in seizing growth opportunities, the Group looks forward to maintaining business development and delivering satisfactory returns for shareholders in the coming years.

5. INDEBTEDNESS

As at the close of business on 31 March 2010, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular, the Enlarged Group had total debt of approximately HK$145 million, details of which are as follows:

Borrowings

The following table illustrates the Enlarged Group's bank and other borrowings as at 31 March 2010:

	HK$'000
Bank borrowings (secured)	105,173
Obligations under finance leases	1,036
Amount due to related parties (unsecured)	38,691
	144,900

Guarantees

As at the close of business on 31 March 2010, the Company provided guarantees amounting to HK$10 million in respect of the performance bond issued by a bank to the customer of one of the Company's subsidiaries.

Legal contingencies

As at 31 March 2010, a number of lawsuits and claims arising from the normal course of business were lodged against the Group which remain outstanding as at the date of these financial statements. Claim amounts are not specified in the applications of these lawsuits and claims. In the opinion of the Directors, sufficient insurance policies are maintained to cover the losses, if any, arising from these lawsuits and claims and therefore the ultimate liability under these lawsuits and claims would not have a material adverse impact on the financial position of the Group.

One of the Company's subsidiaries is being claimed for an amount of approximately HK$9.5 million under a construction and arbitration proceeding at the High Court of Hong Kong, which was initiated by an ex-subcontractor of the Group. Such proceeding is in respect of certain alleged breach of contract and common law duty of care in its negotiation with the Water Supplies Department of Hong Kong ("WSD") on settlement of final accounts and recovery of service fees for certain construction projects for WSD in which the plaintiff acted as the subcontractor.

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

For the purpose of this statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the appropriate exchange rates prevailing as at the close of business on 31 March 2010.

6. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2009 (being the date to which the latest published audited consolidated financial statements of the Company were made up).

7. WORKING CAPITAL

In the absence of unforeseen circumstances, the Directors are of the opinion that after taking into account the net proceeds from the Placing, the existing credit facilities and present financial resources available to the Enlarged Group, the Enlarged Group has sufficient working capital for its present requirement that is for at least twelve months from the date of this circular.

8. TRADING AND FINANCIAL PROSPECTS OF THE ENLARGED GROUP

Currently, the Group's main income contributor is the Waterworks Engineering Business. The Company plans to continue the provision of maintenance and construction works on civil engineering contracts in respect of waterworks engineering in Hong Kong and participate in water supply projects in the PRC. After Completion, apart from the Waterworks Engineering Business, the Group will expand its business scope to engage in the mining business. The Group intends to roll out its open-pit mining operations on the Mine. The Group expects to begin operation in TNE Mine in the fourth quarter of 2010 and generate revenue from the sales of coal from TNE Mine in late 2010. Going forward, the Group plans to increase the production capacity in TNE Mine and to allocate more resources and capital to develop its mining business. Having considered the future trading prospects of the mining industry, the Board believes that the Acquisition will generate additional income to the Group.

1. FINANCIAL INFORMATION OF THE TARGET COMPANY

1.1 ACCOUNTANTS' REPORT ON THE TARGET COMPANY

The following is the text of a report from Grant Thornton, the independent reporting accountants, in respect of the accountants' report on the Target Company prepared for the sole purpose of inclusion in this circular.

Grant Thornton
均富

Member of Grant Thornton International Ltd.

12 May 2010

The Board of Directors
Ming Hing Waterworks Holdings Limited
Unit 1809 - 12, Telford House
16 Wan Hoi Road
Kowloon Bay
Hong Kong

Dear Sirs,

We set out below our report on the financial information of Well Delight Holdings Limited (the "Target Company") and its subsidiaries (collectively referred to as the "Target Group"), including the consolidated statements of financial position of the Target Group as at 31 December 2007, 2008 and 2009, the statement of financial position of the Target Company as at 31 December 2009, the consolidated statements of comprehensive income, the consolidated statements of cash flow and the consolidated statements of changes in equity for the period from 23 February 2007 (date of incorporation of Central Asia Mineral Exploration Pte. Ltd. ("Camex Pte"), a direct wholly-owned subsidiary of the Target Company) to 31 December 2007 and each of the years ended 31 December 2008 and 2009 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory notes thereto (collectively referred to as the "Financial Information"), prepared for inclusion in the circular (the "Circular") dated 12 May 2010 issued by Ming Hing Waterworks Holdings Limited (the "Company") in connection with its proposed very substantial acquisition (the "Acquisition") of 100% equity interest in the Target Company.

The Target Company was incorporated in the British Virgin Islands (the "BVI") on 3 November 2009 with limited liability. The principal activity of the Target Company is investment holding.

Pursuant to a restructuring conducted on 28 November 2009 as detailed in note 1 to the Financial Information, the Target Company has become the holding company of Camex Pte since that date. The Financial Information is presented as a continuation of Camex Pte and its subsidiaries as further detailed in note 1 to the Financial Information.

As at the date of this report, the Target Company has beneficial interest in the following subsidiaries:

Name	Place and date of incorporation /registration	Type of legal entity	Particulars of issued and paid up capital	Percentage of issued capital held by the Target Company		Principal activities
				Directly	*Indirectly*	
Camex Pte	Singapore, 23 February 2007	Limited liability company	US$73,064,000	100%	–	Investment holding
Central Asia Mineral Exploration LLC ("Camex LLC")	Mongolia, 17 August 2006	Limited liability company	10,000 shares of Mongolian Tugrik ("MNT") 1,200 each	–	100%	Mineral resources exploration and investment holding in Mongolia
Kores Mongolia LLC ("Kores")	Mongolia, 23 November 2006	Limited liability company	MNT11,640,000	–	70%	Mineral resources exploration in Mongolia
Tugrugnuuriin Energy LLC ("TNE")	Mongolia, 23 February 2005	Limited liability company	10,000 shares of MNT1,000 each	–	100%	Mining business in Mongolia
Camex GT LLC ("Camex GT")	Mongolia, 22 January 2007	Limited liability company	100 shares of MNT10,000 each	–	100%	Dormant
Grand Title Limited ("Grand Title")	BVI, 10 November 2008	Limited liability company	1 share of US$1 each	–	100%	Investment holding

The percentage of issued capital of TNE held indirectly by Camex Pte as at 31 December 2007, 2008 and 2009 is 80%, 80% and 100% respectively. The percentage of issued capital of Camex LLC, Kores, Camex GT and Grand Title held by Camex Pte remains unchanged during the Relevant Periods or since the respective date of incorporation/acquisition.

All the companies within the Target Group have adopted 31 December as their financial year end date. No audited financial statements have been prepared for the Target Company, Camex LLC, Kores, TNE, Camex GT and Grand Title since the respective date of their incorporation as they were incorporated in countries where they are not subject to statutory audit requirements. No audited financial statements have been prepared for Camex Pte since the date of its incorporation as it is exempted from statutory audit requirement under Companies (Amendment) Act 2005 of Singapore.

Basis of preparation

The Financial Information have been prepared by the directors of the Target Company based on the unaudited financial statements of the companies now comprising the Target Group (the "Underlying Financial Statements") on the basis set out in note 1 to the Financial Information in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Financial Information also complies with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Responsibility

The directors of the Target Company are responsible for the preparation of the Financial Information which are free from material misstatement and give a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, and that judgements and estimates are made which are prudent and reasonable in the circumstances.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information and to report our opinion to you.

Basis of opinion

As a basis for forming an opinion on the Financial Information, we have carried out appropriate audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline – Prospectuses and the Reporting Accountant (Statement 3.340) issued by the HKICPA. No adjustments are considered necessary in respect of the Underlying Financial Statements for the preparation of the Financial Information.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the directors of the Target Company in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the Target Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, on the basis of presentation as set out in note 1 to the Financial Information, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Company as at 31 December 2009, of the state of affairs of the Target Group as at 31 December 2007, 2008 and 2009 and of the Target Group's results and cash flows for each of the Relevant Periods.

Emphasis of matter – Material uncertainty regarding the going concern assumption

Without qualifying our opinion, we draw your attention to note 2 to the Financial Information concerning the adoption of the going concern basis on which the Financial Information has been prepared. The Target Group had net current liabilities of US$271,000 as at 31 December 2009. This condition, along with other matters as disclosed in note 2 to the Financial Information, indicate the existence of a material uncertainty which may cast doubt about the Target Group's ability to continue as a going concern.

Consolidated Statements of Comprehensive Income

	Notes	Period from 23 February 2007 to 31 December 2007	Year ended 31 December 2008	2009
		US$'000	*US$'000*	*US$'000*
Revenue	*5*	–	–	–
Other income and gains		52	59	68
Administrative expenses		(421)	(1,180)	(158,090)
Other operating expenses		(205)	(26)	(55)
Operating loss		(574)	(1,147)	(158,077)
Excess over the cost of business combination	*7*	69,290	–	–
Finance costs	*8*	–	–	–
Profit/(Loss) before income tax	*9*	68,716	(1,147)	(158,077)
Income tax expense	*10*	–	–	–
Profit/(Loss) for the period/year		68,716	(1,147)	(158,077)
Other comprehensive income				
Exchange loss on translation of overseas operations		–	(12,458)	(17,457)
Other comprehensive income for the period/year, net of tax		–	(12,458)	(17,457)
Total comprehensive income for the period/year		68,716	(13,605)	(175,534)
Profit/(Loss) attributable to:				
Owners of the Target Company		68,721	(1,129)	(158,070)
Minority interests		(5)	(18)	(7)
		68,716	(1,147)	(158,077)

Consolidated Statements of Comprehensive Income *(Continued)*

	Notes	Period from 23 February 2007 to 31 December 2007	Year ended 31 December 2008	2009
		US$'000	*US$'000*	*US$'000*
Total comprehensive income attributable to:				
Owners of the Target Company		68,721	(11,050)	(171,827)
Minority interests		(5)	(2,555)	(3,707)
		68,716	(13,605)	(175,534)
		US$	*US$*	*US$*
Earnings/(Loss) per share attributable to owners of the Target Company:	*13*			
Basic		68,721	(1,129)	(158,070)
Diluted		N/A	N/A	N/A

Consolidated Statements of Financial Position

	Notes	As at 31 December **2007** *US$'000*	**2008** *US$'000*	**2009** *US$'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*14*	682	1,983	1,693
Interests in leasehold land	*15*	10	134	95
Exploration and evaluation assets	*16*	221,637	205,514	181,924
Other intangible assets	*17*	3	5	3
Prepayments for exploration, evaluation and mine development activities	*18*	409	488	436
		222,741	208,124	184,151
Current assets				
Amount due from a director	*20*	2,961	2,996	2,956
Amounts due from minority shareholders	*21*	3	121	3
Other receivables, prepayments and deposits		98	73	37
Cash and cash equivalents	*22*	3,254	206	31
		6,316	3,396	3,027
Current liabilities				
Amount due to a director	*23*	2,125	2,417	3,079
Amount due to a minority shareholder	*23*	63	26	–
Other payables and accruals		223	168	219
		2,411	2,611	3,298
Net current assets/(liabilities)		3,905	785	(271)
Total assets less current liabilities		226,646	208,909	183,880

Consolidated Statements of Financial Position *(Continued)*

			As at 31 December	
	Notes	**2007**	**2008**	**2009**
		US$'000	*US$'000*	*US$'000*
Non-current liabilities				
Government subsidies	*24*	855	936	826
Deferred tax liabilities	*25*	54,768	50,555	44,654
		55,623	51,491	45,480
Net assets		171,023	157,418	138,400
EQUITY				
Share capital	*26*	1	1	1
Reserves	*27*	138,032	126,982	138,399
Equity attributable to Target Company's owners		138,033	126,983	138,400
Minority interests		32,990	30,435	–
Total equity		171,023	157,418	138,400

Statement of Financial Position

	Notes	**As at 31 December 2009** *US$'000*
ASSETS AND LIABILITIES		
Non-current assets		
Investment in a subsidiary	*19*	137,759
Current liabilities		
Amount due to a director	*23*	1
Total assets less current liabilities/Net assets		137,758
EQUITY		
Share capital	*26*	1
Reserves	*27*	137,757
Total equity		137,758

Consolidated Statements of Cash Flow

	Period from 23 February 2007 to 31 December	Year ended 31 December	
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Cash flows from operating activities			
Profit/(Loss) before income tax	68,716	(1,147)	(158,077)
Adjustments for:			
Amortisation of interests in leasehold land	–	6	23
Amortisation of other intangible assets	1	1	1
Net depreciation of property, plant and equipment	8	25	15
Excess over the cost of business combination	(69,290)	–	–
Loss on disposal of an exploration licence	–	6	–
Loss on disposal of property, plant and equipment	–	–	5
Interest income	(52)	(34)	(14)
Exchange difference	–	609	787
Share-based payment *(note 29)*	–	–	156,800
Operating loss before working capital changes	(617)	(534)	(460)
(Increase)/Decrease in amount due from a director	(2,961)	(35)	40
(Increase)/Decrease in amounts due from minority shareholders	(3)	(118)	119
Decrease in other receivables, prepayments and deposits	69	25	35
Increase in amount due to a director	284	292	662
Increase/(Decrease) in amount due to a minority shareholder	63	(37)	(26)
Decrease in other payables and accruals	(856)	(55)	(38)
Net cash (used in)/generated from operating activities	(4,021)	(462)	332

Consolidated Statements of Cash Flow *(Continued)*

	Period from 23 February 2007 to 31 December 2007	Year ended 31 December 2008	2009
	US$'000	*US$'000*	*US$'000*
Cash flows from investing activities			
(Increase)/Decrease in prepayment for exploration, evaluation and mine development activities	(519)	(319)	52
Purchases of property, plant and equipment *(note)*	(321)	(1,315)	(119)
Payment for interests in leasehold land	–	(142)	–
Purchase of other intangible assets	–	(3)	–
Payments for exploration and evaluation activities *(note)*	(805)	(954)	(290)
Proceeds from disposal of property, plant and equipment	–	–	50
Acquisition of a subsidiary *(note 28(a))*	(1,560)	–	–
Acquisition of additional interests in a subsidiary *(note 28(c))*	–	–	(195)
Government subsidies received	428	147	–
Interest received	52	34	14
Net cash used in investing activities	(2,725)	(2,552)	(488)
Cash flows from financing activities			
Proceeds from issue of shares *(note 27(b))*	10,000	–	–
Net cash generated from financing activities	10,000	–	–
Net increase/(decrease) in cash and cash equivalents	3,254	(3,014)	(156)
Opening cash and cash equivalents	–	3,254	206
Effect of foreign exchange rate changes, net	–	(34)	(19)
Closing cash and cash equivalents	3,254	206	31

Note:

Expenditures amounting to US$110,000 incurred during the year ended 31 December 2007 were transferred from "prepayments" to "property, plant and equipment". In addition, expenditures amounting to US$240,000 incurred during the year ended 31 December 2008 were transferred as to US$210,000 from "prepayments" to "property, plant and equipment" and US$30,000 from "prepayments" to "exploration and evaluation assets".

Consolidated Statements of Changes in Equity

	Equity attributable to Owners of the Target Company								
	Share capital *US$'000*	Share premium* *US$'000*	Merger reserve* *US$'000*	Translation reserve* *US$'000*	Capital reserve* *US$'000*	Retained profit/ (Accumulated losses)* *US$'000*	Total *US$'000*	Minority interests *US$'000*	Total equity *US$'000*
On 23 February 2007 *(note 27(a))*	1	–	(1)	–	–	–	–	–	–
Capital injection *(note 27(b))*	–	–	10,000	–	–	–	10,000	–	10,000
Acquisition of a subsidiary *(note 28(a))*	–	–	–	–	–	–	–	92,307	92,307
Issue of shares on acquisition of minority interests *(note 27(c))*	–	–	63,064	–	(3,752)	–	59,312	(59,312)	–
Transactions with owners	1	–	73,063	–	(3,752)	–	69,312	32,995	102,307
Profit/(Loss) for the period	–	–	–	–	–	68,721	68,721	(5)	68,716
Other comprehensive income	–	–	–	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	–	68,721	68,721	(5)	68,716
At 31 December 2007 and 1 January 2008	1	–	73,063	–	(3,752)	68,721	138,033	32,990	171,023
Transactions with owners	–	–	–	–	–	–	–	–	–
Loss for the year	–	–	–	–	–	(1,129)	(1,129)	(18)	(1,147)
Other comprehensive income									
Exchange loss on translation of overseas operations	–	–	–	(9,921)	–	–	(9,921)	(2,537)	(12,458)
Total comprehensive income for the year	–	–	–	(9,921)	–	(1,129)	(11,050)	(2,555)	(13,605)
At 31 December 2008 and 1 January 2009	1	–	73,063	(9,921)	(3,752)	67,592	126,983	30,435	157,418
Acquisition of minority interests *(note 28(c))*	–	–	–	–	26,444	–	26,444	(26,728)	(284)
Issue of shares on Restructuring *(note 27(e))*	–	156,800	–	–	–	–	156,800	–	156,800
Transactions with owners	–	156,800	–	–	26,444	–	183,244	(26,728)	156,516
Loss for the year	–	–	–	–	–	(158,070)	(158,070)	(7)	(158,077)
Other comprehensive income									
Exchange loss on translation of overseas operations	–	–	–	(13,757)	–	–	(13,757)	(3,700)	(17,457)
Total comprehensive income for the year	–	–	–	(13,757)	–	(158,070)	(171,827)	(3,707)	(175,534)
At 31 December 2009	1	156,800	73,063	(23,678)	22,692	(90,478)	138,400	–	138,400

* The total of these balances represents reserves in the consolidated statements of financial position.

Notes to the Financial Information

1. GENERAL INFORMATION

The Target Company was incorporated in the BVI on 3 November 2009 with limited liability. The address of its registered office is P.O Box 57, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands and its principal place of business is 101 Thomson Road, #16-05 United Square, Singapore.

The principal activity of the Target Company is investment holding. The principal activities of its subsidiaries comprise mineral resources exploration and mining in Mongolia. The Target Company has not carried out any business activities except to effect the restructuring as mentioned below.

A restructuring (the "Restructuring") was taken place on 28 November 2009 which gives rise to the structure of the Target Group as at 31 December 2009. The Restructuring comprised the following steps:

(i) The entire issued share capital of Grand Title was transferred from its then beneficial owner (the "Party") to Camex Pte;

(ii) All the issued shares of Camex Pte were transferred from the then shareholders of Camex Pte to the Target Company; and

(iii) 150 shares (representing 15% of share capital) and 850 shares (represented 85% of share capital) of the Target Company were allotted to Sino Access Holdings Limited ("Sino Access") and Best State Holdings Limited ("Best State") respectively. Sino Access is beneficially owned by the Party whereas Best State is beneficially owned by the Party, the five shareholders of Camex Pte immediately before the Restructuring and another third party to whom one of those five shareholders of Camex Pte transferred certain of his share of interest in the Target Company on the date of the Restructuring (those five shareholders of Camex Pte immediately before the Restructuring and the third party who received shares of the Target Company from one of those five shareholders of Camex Pte in the capacity of the equity holder of Camex Pte are collectively referred to as the "Six Individuals").

After the Restructuring, the Six Individuals have 51% effective interest in the share capital of the Target Company in consideration for the transfer of their interests in Camex Pte whereas the Party has 49% effective interest in the share capital of the Target Company in consideration for the transfer of the entire issued capital of Grand Title from the Party to Camex Pte.

The consolidated statements of financial position of the Target Group have been prepared using merger accounting principles to present the assets and liabilities of the companies now comprising the Target Group as if the current group structure had been in existence as at the end of each of the Relevant Periods using the existing book values. The consolidated statements of comprehensive income, the consolidated statements of cash flow and the consolidated statements of changes in equity include the results of operations of the companies now comprising the Target Group for the Relevant Periods as if the current group structure had been in existence throughout the entire Relevant Periods, or since the respective date of incorporation or acquisition of the relevant companies which were incorporated or acquired at a date later than 23 February 2007 (the date of incorporation of Camex Pte). The Financial Information of the Target Company is a continuation of the consolidated results and financial position of Camex Pte and its subsidiaries since the date of incorporation of Camex Pte on 23 February 2007. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost for the Restructuring.

In the opinion of the directors of the Target Company, as at 31 December 2009, the immediate holding company and ultimate parent company of the Target Company is Best State, a company incorporated in the BVI.

2. BASIS OF PREPARATION

The Financial Information has been prepared in accordance with HKFRSs (including all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the HKICPA. The Financial Information also complies with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. These are the first set of financial statements of the Target Group and the directors have adopted, in the first time, HKFRSs in preparing these financial statements. For the purpose of preparing the Financial Information, the Target Group has adopted all applicable HKFRSs that are relevant to the Target Group and are effective for the accounting period beginning 1 January 2009 throughout the Relevant Periods to the extent required by HKFRSs.

At the date of issue of this Financial Information, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Target Group. The directors of the Target Company anticipate that all of the pronouncements will be adopted by the Target Group for the first period beginning after the effective date of the pronouncement. Information on new and revised HKFRSs that are expected to have impact on the Target Group's accounting policies is provided below:

(i) HKFRS 3 Business combinations (2008 Revised)

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

(ii) HKAS 27 Consolidated and separate financial statements (2008 Revised)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Target Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors do not expect the standard to have a material effect on the Target Group's financial statements.

(iii) HKFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in statement of comprehensive income except for those on certain equity investments which will be presented in other comprehensive income. The directors are currently assessing the possible impact of the new standard on the Target Group's results and financial position in the first year of application.

2. BASIS OF PREPARATION *(Continued)*

(iv) Annual improvements 2009

The HKICPA has issued Improvements to Hong Kong Financial Reporting Standards 2009. Most of the amendments become effective for annual periods beginning on or after 1 January 2010. The directors expect the amendment to HKAS 17 Leases to be relevant to the Target Group's accounting policies. Prior to the amendment, HKAS 17 generally required a lease of land to be classified as an operating lease. The amendment requires a lease of land to be classified as an operating or finance lease in accordance with the general principles in HKAS 17. The Target Group will need to reassess the classification of its unexpired leases of land at 1 January 2010 on the basis of information existing at the inception of those leases in accordance with the transitional provisions for the amendment. The amendment will apply retrospectively except where the necessary information is not available. In that situation, the leases will be assessed on the date when the amendment is adopted. The directors are currently assessing the possible impact of the amendment on the Target Group's results and financial position in the first year of application.

Certain other new and revised HKFRSs have been issued but are not expected to have a material impact to the Target Group's financial statements.

The significant accounting policies that have been used in the preparation of the Financial Information are set out in note 3. These policies have been consistently applied throughout the Relevant Periods unless otherwise stated.

The Target Group had net current liabilities of US$271,000 as at 31 December 2009. In addition, it has not yet commenced revenue-generating activities and it had capital commitments of approximately US$3.6 million as at 31 December 2009. In spite of these, the Financial Information has been prepared on a going concern basis since certain of the beneficial owners of the Target Company have agreed to provide adequate funds to enable the Target Group to meet in full its financial obligations as they fall due. In addition, the Company has agreed to provide financial support to the Target Group to enable the Target Group to meet in full its financial obligations as they fall due upon completion of the Acquisition.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 General

The Financial Information has been prepared under historical cost convention. The measurement bases are fully described in the accounting policies below.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Basis of consolidation

The Financial Information incorporates the financial statements of the Target Company and its subsidiaries made up to 31 December each year.

Subsidiaries *(note 3.3)* are consolidated from the date on which control is transferred to the Target Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Target Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Target Group.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.3 Subsidiaries

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

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

Changes in the Target Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction.

In the Target Company's statement of financial position, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Target Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Target Company's statement of comprehensive income.

3.4 Foreign currency translation

The Financial Information is presented in US Dollars ("US$"), which is also the functional currency of the Target Company.

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

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.4 Foreign currency translation *(Continued)*

In preparing the Financial Information, all individual financial statements of the consolidated entities have been converted into US$. Assets and liabilities for each statement of financial position presented have been translated into US$ at the closing rates at the reporting date. Income and expenses for each statement of comprehensive income have been converted into US$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising therefrom is recognised in other comprehensive income and accumulated as a separate component of equity as translation reserve.

3.5 Goodwill

Goodwill arising from the acquisition of subsidiaries represents the excess of the cost of the business combination over the the Target Group's interest in the net fair value of the identifiable assets acquired and liabilities including contingent liabilities assumed as at the date of acquisition. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Target Group, plus any costs directly attributable to the business combination.

Goodwill arising on acquisition is initially recognised in consolidated statements of financial position as an asset at cost and subsequently measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually at the reporting date or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may be impaired *(note 3.12)*.

On subsequent disposal of a subsidiary, the carrying amount of goodwill relating to the entity sold is included in determining the amount of gain or loss on disposal.

3.6 Excess over the cost of business combinations

Any excess of the Target Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in consolidated statements of comprehensive income.

3.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost, which comprise purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use, less accumulated depreciation and any impairment losses *(note 3.12)*.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.7 Property, plant and equipment *(Continued)*

Depreciation for items of property, plant and equipment which form part of a mine processing plant is calculated based on unit-of-production basis. Depreciation for other items of property, plant and equipment is calculated using the straight-line method to write off the cost of property, plant and equipment, less any estimated residual values, over the following estimated useful lives:

Buildings	The shorter of the lease terms and 40 years
Plant and machinery	3 - 10 years
Furniture, fixtures and equipment	3 - 5 years
Motor vehicles	5 years

Depreciation for those items of property, plant and equipment which form part of a mine processing plant commences when the processing plant is capable of operating at commercial level. Depreciation for other items of property, plant and equipment commences when the asset is first available for use.

The assets' depreciation methods, estimated useful lives and residual values are reviewed and adjusted, if appropriate, at each reporting date.

Construction in progress represents asset in the course of construction for production or for its own use purpose and is stated at cost less any impairment loss. Cost comprises construction expenditure and other direct costs attributable to such projects and is reclassified to the appropriate category of property, plant and equipment when completed and ready for intended use.

The gain or loss on retirement or disposal of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated statements of comprehensive income.

3.8 Interests in leasehold land

Interests in leasehold land are up-front prepayments made for the leasehold land and land use rights which are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on a straight-line basis over the lease term. The determination if an arrangement is or contains a lease and the lease is an operating lease is detailed in note 3.19.

3.9 Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any accumulated impairment losses. Exploration and evaluation assets include the cost of obtaining/acquiring and maintaining mining and exploration rights, expenditures incurred in the search for mineral resources as well as the determination of the technical feasibility and commercial viability of extracting those resources. They also include administration costs and finance cost which relate to specific exploration and evaluation activities. Such expenditures incurred before obtaining the legal rights to explore specific area are charged to the consolidated statements of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.9 Exploration and evaluation assets *(Continued)*

When the technical feasibility and commercial viability of extracting mineral resources become demonstrable, previously recognised exploration and evaluation assets are transferred to other intangible assets (i.e. mine development assets) or other fixed assets. These assets are assessed for impairment before reclassification.

The carrying amount of the exploration and evaluation assets is reviewed annually or when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. Such facts and circumstances include:

(i) the period for which the Target 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;

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

(iii) 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 Target Group has decided to discontinue such activities in the specific area; or

(iv) 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 or by sale.

In any such case, or similar cases, the Target Group performs an impairment test in accordance with HKAS 36 "Impairment of Assets" *(note 3.12)*.

3.10 Prepayments for exploration, evaluation and mine development activities

Prepayments for exploration, evaluation and mine development activities are stated at cost and are recognised as exploration and evaluation assets, other intangible assets or other fixed assets as appropriate when work has been performed.

3.11 Other intangible assets – software

Software acquired separately and with finite useful lives is carried at cost less accumulated amortisation and any accumulated impairment losses. Software is amortised on a straight-line basis over their estimated useful lives of 3 to 5 years.

3.12 Impairment of non-financial assets (excluding exploration and evaluation assets)

Goodwill, other intangible assets, property, plant and equipment, interests in leasehold land and investments in subsidiaries are subject to impairment testing. Goodwill and other intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Impairment of non-financial assets (excluding exploration and evaluation assets) *(Continued)*

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

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Target Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

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

3.13 Financial assets

The Target Group's financial assets are classified into loans and receivables including amounts due from related parties. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

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

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expired or are transferred and substantially all of the risks and rewards of ownership have been transferred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.13 Financial assets *(Continued)*

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Loans and receivables

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

Impairment of financial assets

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment. Objective evidence of impairment of individual financial assets includes observable date that come to the attention of the Target Group about one or more of the followings loss events:

– significant financial difficulty of the debtors;

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

– it becoming probable that the debtors will enter bankruptcy or other financial reorganisation; and

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

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.13 Financial assets *(Continued)*

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

3.14 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand and demand deposits with banks. For the purpose of the consolidated statements of cash flow presentation, cash and cash equivalents include bank overdrafts which form an integral part of the Target Group's cash management.

3.15 Financial liabilities

Financial liabilities of the Target Group include payables and accruals including amounts due to related parties.

Financial liabilities are recognised when the Target Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Target Group's accounting policy for borrowing costs (note 3.24).

Financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

3.16 Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.16 Accounting for income taxes *(Continued)*

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profits, including existing temporary difference, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

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

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

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

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

3.17 Short-term employee benefits and retirement benefit costs

Short-term employee benefits

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

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

Pension scheme

Retirement benefits to employees are provided through defined contribution plans. A defined contribution plan is a pension plan under which the Target Group pays fixed contributions into a separate entity. Contributions to defined contribution plans are recognised as expense in the statement of comprehensive income as employees render services during the year. The Target Group's obligations under these plans is limited to the fixed percentage contributions payable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.18 Provisions and contingent liabilities

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

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

3.19 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Target Group determines that the arrangement conveys a right to use 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.

Lease where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Where the Target Group has the right to use the assets held under operating leases, payments made under the leases are charged to statement of comprehensive income on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the aggregate net lease payments made. Contingent rental are charged to the consolidated statements of comprehensive income in the accounting period in which they are incurred.

3.20 Share capital

Ordinary shares are classified as equity. Any transaction costs associated with the issuing of shares are deducted from share premium account (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.21 Share-based compensation

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date the financial instruments are granted. The cost of equity-settled transactions with parties other than employees is measured by reference to the fair value of the goods or services provided on the date the goods are obtained or services being rendered by the counterparty.

Where the fair value of equity instruments granted in a share-based payment transaction is greater than the fair value of the identifiable goods and services received or where the goods or services received cannot be specifically identified, the Target Group measures the unidentifiable goods or services received as the difference between the fair value of the share-based payment measured at grant date and the fair value of any identifiable goods and services received.

The cost of equity-settled transactions is recognised as an expense or an asset if qualified as such with a corresponding increase in share-based payment reserve within equity. If vesting periods or other vesting conditions apply, the cost of equity-settled transaction is allocated using straight-line basis over the vesting period, based on the best available estimate of the number of financial instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of financial instruments that are expected to become exercisable. Estimates are subsequently revised if there is indication that the number of financial instruments expected to vest differs from previous estimates. Any adjustment to the fair value recognised in prior years is charged/credited to the statement of comprehensive income or reflected in the amount of asset recognised in the year of the review with a corresponding adjustment to the share-based payment reserve.

On vesting date, the amount recognised as an expense or an asset is adjusted to reflect the actual number of financial instruments that vest (with a corresponding adjustment to the share-based payment reserve) except where forfeiture is only due to not achieving vesting that relate to market condition (which is treated as vesting irrespective of whether or not the market condition is satisfied).

At the time when the financial instruments are vested, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the financial instruments are forfeited or are still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to retained profits.

3.22 Revenue and other income recognition

Revenue is measured at fair value of the consideration received or receivable net of discounts and sales related taxes. Revenue and other income are recognised when it is probable that the economic benefits will flow to the Target Group and when the revenue and costs, if applicable, can be measured reliably, on the following bases:

(i) Sales of goods – when the significant risks and rewards of ownership have been transferred to the buyer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

(ii) Interest income – on a time proportion basis using the effective interest method.

(iii) Dividend is recognised when the right to receive payment is established.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.23 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Target Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the consolidated statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are deducted from the carrying amount of the property, plant and equipment.

3.24 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Other borrowing costs are expensed when incurred.

3.25 Related parties

For the purpose of this Financial Information, a party is considered to be related to the Target Group if:

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

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

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

(iv) the party is a member of key management personnel of the Target 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 Target Group, or of any entity that is a related party of the Target 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical judgements

Going concern basis

The assessment of the going concern assumption involves making judgement by the directors of Target Company, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The directors of the Target Company consider that the Target Company and the Target Group have the ability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumption are set out in note 2.

4.2 Critical accounting estimates and assumptions

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

Impairment of exploration and evaluation assets

Under the full cost method of accounting exploration and evaluation costs, such costs are capitalised by reference to appropriate cost pools, and are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This assessment involves judgement as to (i) the likely future commerciality of the asset and when such commerciality should be determined; and (ii) future revenues and costs pertaining to the asset in question, and the discount rate to be applied to such revenues and cost for the purpose of deriving a recoverable value. While conducting an impairment review of its assets, management of the Target Group exercise certain judgements in making assumptions about the future market prices, reserves and future development and production costs. Changes in these estimates may result in significant changes to statement of comprehensive income.

Estimated useful lives of property, plant and equipment

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives. The estimation of useful lives of the depreciable assets is based on the experience of the management, and useful lives are reviewed at each reporting date based on changes in circumstances. When useful lives of property, plant and equipment are different from that previously estimated, the depreciation charges for future periods will be adjusted accordingly.

Provision for reclamation and closure cost

Provision for reclamation and closure cost is estimated based on management's interpretation of current regulatory requirements and their past experiences. Provision set up, if any, is reviewed regularly by management to ensure it properly reflects the obligation arising from the mining and exploration activities.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.2 Critical accounting estimates and assumptions *(Continued)*

Estimates of current and deferred tax

The Target Group is exposed to income taxes in different jurisdictions. Significant judgement is required in determining the provision for taxation and timing of payment of related taxes. Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Target Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Where the final tax outcome of these transactions is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the year/period in which such determination is made.

5. REVENUE

The Target Group did not generate any turnover or revenue during the Relevant Periods.

6. SEGMENT INFORMATION

No segment information is presented as the Target Group operates in one single business segment i.e. exploration and development of mineral resources, and financial information reported here are on the same basis as those used internally by the chief operating decision-maker, i.e. the directors of the Target Company. Substantially all of the Target Group's assets and liabilities are located in Mongolia and accordingly, no geographical information has been disclosed in the Financial Information.

7. EXCESS OVER THE COST OF BUSINESS COMBINATION

The excess over the cost of business combination amounting to US$69,290,000 arose from the acquisition of 54.5% equity interest in the subsidiary, Camex LLC, by Camex Pte, in 2007 as detailed in note 28(a).

8. FINANCE COSTS

	Period from 23 February 2007 to 31 December 2007	Year ended 31 December	
		2008	2009
	US$'000	*US$'000*	*US$'000*
Interest charges on:			
Bank loans wholly repayable within five years	50	–	–
Less: Interest capitalised in exploration and evaluation assets	(50)	–	–
	–	–	–

9. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(Loss) before income tax is arrived at after charging/(crediting):

	Period from 23 February 2007 to 31 December 2007	Year ended 31 December 2008	2009
	US$'000	*US$'000*	*US$'000*
Amortisation of interests in leasehold land	–	6	23
Amortisation of other intangible assets	1	1	1
Depreciation of property, plant and equipment	16	53	122
Less: Amounts capitalised in exploration and evaluation assets	(8)	(28)	(107)
Net depreciation of property, plant and equipment	8	25	15
Employee benefit expenses including directors' remuneration *(note)*	76	261	326
Interest income	(52)	(34)	(14)
Net exchanges loss	21	414	547
Write-off of project costs#	205	20	50
Loss on disposal of an exploration licence#	–	6	–
Loss on disposal of property, plant and equipment#	–	–	5
Operating lease charge in respect of land and buildings	59	140	109
Share-based payments *(note 29)*	–	–	156,800

 # included in other operating expenses

Note:

Details of the employee benefit expenses are as follows:

	Period from 23 February 2007 to 31 December 2007	Year ended 31 December 2008	2009
	US$'000	*US$'000*	*US$'000*
Salaries, allowances and benefits in kind	90	331	374
Contributions to retirement benefits scheme	17	36	29
	107	367	403
Less: Amounts capitalised in exploration and evaluation assets	(31)	(106)	(77)
	76	261	326

10. INCOME TAX EXPENSE

Subsidiaries incorporated in Mongolia are subject to Mongolian income tax which is calculated at the rate of 10% on the first MNT 3 billion of taxable income and 25% on the amounts in excess thereof.

No income tax has been provided by the Target Group during the Relevant Periods as it did not derive any assessable income arising in Mongolia during the Relevant Periods. No Hong Kong profits tax or Singapore income tax has been provided as the Target Group had no assessable profits arising in or derived from Hong Kong or Singapore.

Reconciliation between income tax expense and accounting profit/(loss) at applicable tax rates is as follows:

	Period from 23 February 2007 to 31 December 2007	Year ended 31 December 2008	2009
	US$'000	*US$'000*	*US$'000*
Profit/(Loss) before income tax	68,716	(1,147)	(158,077)
Tax calculated at the rates applicable to profits in the tax jurisdiction concerned	6,865	(137)	(26,800)
Tax effect of non-taxable income	(6,929)	–	–
Tax effect of non-deductible expenses	21	43	26,724
Tax effect of unused tax losses not recognised	–	1	8
Tax effect of unrecognised temporary differences	43	93	68
Income tax expense	–	–	–

11. DIVIDEND

No dividends was paid or proposed during the Relevant Periods.

12. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

Directors' emoluments

The aggregate amount of emoluments paid and payable to the directors of the Target Company by the Target Group during the Relevant Periods are as follows:

	Fees	Salaries, allowances and benefits in kind	Retirement benefits contribution	Bonus	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Period from 23 February 2007 to 31 December 2007					
Mr. Lim Siong, Dennis	–	12	1	–	13
Mr. Tan Kah Hock	–	–	–	–	–
	–	12	1	–	13
Year ended 31 December 2008					
Mr. Lim Siong, Dennis	–	49	6	–	55
Mr. Tan Kah Hock	–	–	–	–	–
	–	49	6	–	55
Year ended 31 December 2009					
Mr. Lim Siong, Dennis	–	168	5	–	173
Mr. Tan Kah Hock	–	–	–	–	–
Mr. Wong Tak Chung, Andrew	–	–	–	–	–
	–	168	5	–	173

There were no arrangements under which a director waived or agreed to waive any remuneration during the Relevant Periods. No emoluments were paid to the directors of the Target Company or employees of the Target Group during the Relevant Periods as an inducement to join or upon joining the Target Group or as compensation for loss of office.

12. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

Five highest paid individuals

The five individuals whose remunerations were the highest in Target Group during the period from 23 February 2007 (date of incorporation of Camex Pte) to 31 December 2007 and for the years ended 31 December 2008 and 2009 included one director, whose emoluments are reflected in the analysis presented above. The remunerations paid or payable to the remaining four individuals in each of the Relevant Periods are as follows:

	Period from 23 February 2007 to 31 December 2007	Year ended 31 December 2008	2009
	US$'000	*US$'000*	*US$'000*
Salaries, allowances and benefits in kind	34	84	105
Contributions to retirement benefits scheme	6	7	5
	40	91	110

The remunerations paid or payable to each of the remaining individuals fell within the salary band HK$1,000,000 (equivalent to approximately US$128,000) or below.

13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share for the Relevant Periods is based on the following data:

	Period from 23 February 2007 to 31 December 2007	Year ended 31 December 2008	2009
Profit/(Loss) attributable to owners of the Target Company (US$'000)	68,721	(1,129)	(158,070)
Weighted average number of shares in issue *(note)*	1,000	1,000	1,000

Note: For the purpose of this Financial Information, the denominator used for the calculation of the basic earnings/(loss) per share represents the issued share capital of the Target Company as if the current group structure as a result of the Restructuring mentioned in note 1 had been in existence throughout the Relevant Periods.

The Target Group has no potential dilutive shares in issue.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings *US$'000*	Plant and machinery *US$'000*	Furniture, fixtures and equipment *US$'000*	Motor vehicles *US$'000*	Construction in progress *US$'000*	Total *US$'000*
Period ended 31 December 2007						
On 23 February 2007	–	–	–	–	–	–
Acquisition through business combination *(note 28(a))*	105	7	65	91	–	268
Additions	18	29	12	70	302	431
Disposal	–	–	(1)	–	–	(1)
Depreciation	(3)	(1)	(7)	(5)	–	(16)
Closing net carrying amount	120	35	69	156	302	682
At 31 December 2007						
Cost	123	36	76	161	302	698
Accumulated depreciation	(3)	(1)	(7)	(5)	–	(16)
Net carrying amount	120	35	69	156	302	682
Year ended 31 December 2008						
Opening net carrying amount	120	35	69	156	302	682
Exchange difference	(67)	(87)	(5)	(12)	–	(171)
Additions	–	672	18	15	820	1,525
Transfer	728	394	–	–	(1,122)	–
Depreciation	(8)	(11)	(17)	(17)	–	(53)
Closing net carrying amount	773	1,003	65	142	–	1,983
At 31 December 2008						
Cost	783	1,014	87	163	–	2,047
Accumulated depreciation	(10)	(11)	(22)	(21)	–	(64)
Net carrying amount	773	1,003	65	142	–	1,983
Year ended 31 December 2009						
Opening net carrying amount	773	1,003	65	142	–	1,983
Exchange difference	(90)	(118)	(8)	(16)	–	(232)
Additions	15	34	11	59	–	119
Disposal	–	–	–	(55)	–	(55)
Depreciation	(5)	(87)	(20)	(10)	–	(122)
Closing net carrying amount	693	832	48	120	–	1,693
At 31 December 2009						
Cost	707	929	92	143	–	1,871
Accumulated depreciation	(14)	(97)	(44)	(23)	–	(178)
Net carrying amount	693	832	48	120	–	1,693

Titles in respect of certain buildings located at certain mine sites in Mongolia have not yet been obtained as the construction of those buildings has not yet been completed as at the date of each Relevant Periods.

The mine processing plant of the Target Group has not yet commenced production during the Relevant Periods and accordingly, depreciation for those items of property, plant and equipments which form part of the mine processing plant has not yet been provided.

15. INTERESTS IN LEASEHOLD LAND

Interests in leasehold land represent prepaid operating lease payments for certain land in Mongolia and the movement in their net carrying amounts are analysed as follows:

	Period from 23 February 2007 to 31 December 2007	Year ended 31 December 2008	2009
	US$'000	*US$'000*	*US$'000*
Opening carrying amount	–	10	134
Exchange difference	–	(12)	(16)
Acquisition through business combination *(note 28(a))*	10	–	–
Additions	–	142	–
Amortisation	–	(6)	(23)
Closing carrying amount	10	134	95

The analysis of the net carrying amounts of the leasehold land based on lease period is as follows:

	As at 31 December 2007	2008	2009
	US$'000	*US$'000*	*US$'000*
Outside Hong Kong, held on:			
Lease between 10 to 50 years	10	8	7
Lease less than 10 years	–	126	88
	10	134	95

16. EXPLORATION AND EVALUATION ASSETS

	Exploration and mining rights	Others	Total
	US$'000	*US$'000*	*US$'000*
	(note (a))	*(note (d))*	*(note (e))*
On 23 February 2007	–	–	–
Acquisition through business combination *(note (b))*	219,357	1,466	220,823
Additions	18	796	814
At 31 December 2007	219,375	2,262	221,637
Exchange difference	(16,887)	(242)	(17,129)
Additions *(note (c))*	165	847	1,012
Disposal *(note (c))*	(6)	–	(6)
At 31 December 2008	202,647	2,867	205,514
Exchange difference	(23,654)	(333)	(23,987)
Additions	72	325	397
At 31 December 2009	179,065	2,859	181,924

Notes:

(a) The balance represents the cost of obtaining/acquiring exploration and mining rights to certain area in Mongolia with gold, copper and coal deposit. Pursuant to the Mineral Law of Mongolia which was adopted in 2006 (the "2006 Mineral Law"), exploration licence is granted for an initial period of 3 years and holder of an exploration licence may apply for an extension of such licence for two successive periods of 3 years each. Mining licence is granted for an initial period of 30 years and holder of a mining licence may apply for an extension of such licence for two successive periods of 20 years each.

(b) On 5 June 2007, Camex Pte acquired 54.5% equity interest in Camex LLC *(note 28(a))* and on that date, Camex LLC Group held the following licences:

– two exploration licences, which were first issued in 2004 and re-registered under the 2006 Mineral Law, in respect of certain area in Gobi-Altai, Mongolia covering 44,027 hectares (revised to 44,016 hectares as at the date of this report) in aggregate with gold and copper deposit. The two exploration licences were transferred from the joint venture partner of Kores in February 2007 pursuant to the founding agreement signed on 22 August 2006;

– two exploration licences, which were first issued in 2004 and re-registered under the 2006 Mineral Law, in respect of certain area in Zavkhan, Mongolia covering 15,517 hectares in aggregate with gold and copper deposit; and

– one mining licence (first issued in 1995) and three exploration licences in respect of a coal mine located in Tuv Province of Mongolia covering an area of 1,114 hectares in aggregate. Two of the three exploration licences were subsequently converted into mining licences in April 2008 and the remaining exploration licence was subsequently converted into mining licence in January 2010. The licences were obtained through the acquisition of TNE by Camex LLC in February 2007.

(c) In January 2008, Camex LLC was granted an exploration licence in respect of a coal mine in Dundgobi, Mongolia. The licence was subsequently sub-divided into four exploration licences and one of the four exploration licences was disposed of. The remaining three exploration licences cover an area of 14,087 hectares in aggregate.

(d) Others mainly comprise geological and geophysical costs, costs incurred for drilling, trenching and excavation works, costs incurred for sampling and laboratory works, costs incurred for evaluation such as environment assessment and feasibility study, as well as depreciation and labour costs directly attributable to the exploration activities.

(e) The amounts of exploration and evaluation assets as at 31 December 2007, 2008 and 2009 represent active exploration and mining projects. Based on the assessment of the directors, there are no indications of impairment regarding the respective projects as at the end of each Relevant Periods.

17. OTHER INTANGIBLE ASSETS

Other intangible assets represent software acquired by the Target Group. The movements during the Relevant Periods comprise amortisation charge which is included in "administrative expenses" in the consolidated statements of comprehensive income and in particular for the year ended 31 December 2008, purchase of other intangible assets of US$3,000.

18. PREPAYMENTS FOR EXPLORATION, EVALUATION AND MINE DEVELOPMENT ACTIVITIES

	As at 31 December		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Prepaid licence fees *(note (a))*	309	372	333
Others *(note (b))*	100	116	103
	409	488	436

Notes:

(a) Prepaid licence fees of the Target Group represent payments to a supplier regarding the transfer of technical know-how which is to be used in a processing plant for smokeless fuel product. As at 31 December 2009, certain conditions as set forth in the licence agreement signed with the supplier have not yet been fulfilled and accordingly, the transfer of the technical know-how is not yet completed.

(b) Others mainly represent prepayments for machinery and equipments.

19. INVESTMENT IN A SUBSIDIARY

	As at 31 December
	2009
	US$'000
Unlisted shares, at costs	137,759

20. AMOUNT DUE FROM A DIRECTOR

The balance represents amount due from Mr. Dennis Lim, a director of the Target Company, which is unsecured, interest-free and repayable on demand. The maximum outstanding amount due from him during the period from 23 February 2007 (date of incorporation of Camex Pte) to 31 December 2007 and the years ended 31 December 2008 and 2009 was approximately US$2,961,000, US$2,996,000 and US$2,996,000 respectively. The directors of the Target Company consider that the carrying amount of this balance approximates its fair value due to short maturity period.

21. AMOUNTS DUE FROM MINORITY SHAREHOLDERS

The balances comprise (i) an amount of US$3,000 due from the joint venture partner of Kores as at 31 December 2007, 2008 and 2009 which are unsecured, interest-free and repayable on demand; and (ii) an amount of US$118,000 due from the minority shareholder of TNE as at 31 December 2008 which was secured by the minority shareholder's 20% equity interest in TNE and repayable on 26 August 2008. The amount due from the minority shareholder of TNE was settled in 2009 by offsetting part of the consideration for acquiring the 20% equity interest in TNE by Camex LLC as detailed in note 28(c).

The directors of the Target Company consider that the fair values of these balances are not materially different from their carrying amounts due to short maturity period.

22. CASH AND CASH EQUIVALENTS

	As at 31 December		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Cash at banks and in hand	1,307	206	31
Time deposit	1,947	–	–
	3,254	206	31

Cash at banks earns interest at the floating rates based on the daily bank deposit rates. The time deposit has maturity period of seven days and is interest-bearing at 4.18% per annum.

23. AMOUNT DUE TO A DIRECTOR / A MINORITY SHAREHOLDER

The amount due is unsecured, interest-free and repayable on demand. The directors of the Target Company consider that the carrying amount of this balance approximates its fair value due to short maturity period.

24. GOVERNMENT SUBSIDIES

During the years ended 31 December 2007 and 2008, TNE received government subsidies amounted to MNT 1,000,000,000 (equivalent to approximately US$855,000) and MNT 186,000,000 (equivalent to approximately US$147,000) respectively. These subsidies were granted by the government of Mongolia to finance TNE in establishing a processing plant for smokeless fuel product. Since the investment cost for constructing the processing plant as well as the related government subsidies are still subject to negotiation with government, the received subsidies were recognised as liabilities as at the end of each Relevant Periods. Further details about the processing plant are included in note 31(i).

25. DEFERRED TAX LIABILITIES

The movement in the carrying amounts of deferred tax liabilities of the Target Group during the Relevant Periods is as follows:

	Exploration and evaluation assets
	US$'000
On 23 February 2007	–
Acquisition of a subsidiary *(note 28(a))*	54,768
As at 31 December 2007	54,768
Exchange difference	(4,213)
As at 31 December 2008	50,555
Exchange difference	(5,901)
As at 31 December 2009	44,654

The Target Group has reported tax losses of approximately US$1,000, US$4,000 and US$50,000 as at 31 December 2007, 2008 and 2009 respectively. Deferred tax assets are not recognised in respect of these tax losses due to the unpredictability of future profit streams.

According to the Economic Entity Tax Law of Mongolia, effective from 1 January 2010, operating losses accumulated by mining companies can be carried forward and deducted from taxable income for a period from four to eight years following the year in which the loss was incurred, the determination of the carry-forward period applicable to any particular mining company to be determined by the government of Mongolia taking into consideration the investment made by such company in its mining operations. According to the relevant tax law of Singapore, tax losses arising in Singapore may be forwarded indefinitely.

26. SHARE CAPITAL

The Target Company was incorporated in the BVI on 3 November 2009 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each.

Pursuant to the Restructuring taken place on 28 November 2009, 1,000 shares of the Target Company in aggregate were allotted and issued at par to Sino Access and Best State as mentioned in note 1(iii).

27. RESERVES

The Target Group

Details of the movements in the reserves of the Target Group during the Relevant Periods are set out in the consolidated statements of changes in equity. The nature of certain reserves of the Target Group is as follows:

Merger reserve

The Financial Information is a continuation of the consolidated results and financial position of Camex Pte and its subsidiaries and is prepared as if the current group structure as a result of the Restructuring as mentioned in note 1 had been in existence throughout the Relevant Periods. Accordingly, the share capital presented in this report is the share capital of the Target Company. The difference between the carrying value of the issued capital of Camex Pte and the nominal value of the shares issued by the Target Company in exchange for the interests in Camex Pte is recognised as merger reserve. The movements in the merger reserve during the Relevant Periods are effectively the movements in the share capital of Camex Pte which are as follows:

		Carrying amount
	Note	*US$'000*
On 23 February 2007	*(a)*	(1)
Capital injection from shareholders	*(b)*	10,000
Shares issued in connection to acquisition of minority interests	*(c)*	63,064
As at 31 December 2007, 2008 and 2009		73,063

Notes:

(a) Camex Pte was incorporated in Singapore on 23 February 2007 with an issued share capital of US$2 comprising 2 shares of US$1 each.

(b) During June and July 2007, capital amounting to US$10,000,000 in aggregate was injected by Mr. Tan Kah Hock, Mr. Lim Siong Dennis and Mr. Yeo Cheow Tong (the "Three Individuals"). In return for this capital injection, the Three Individuals were issued shares of Camex Pte of 3,549,999, 1,499,999 and 400,000 respectively.

(c) As the consideration for acquiring the remaining 45.5% equity interest in Camex LLC, Camex Pte issued 4,550,000 new shares with fair value of US$63,064,000 to the then minority shareholders of Camex LLC as further detailed in note 28(b).

27. RESERVES *(Continued)*

The Target Group *(Continued)*

Capital reserve

Capital reserve as at 31 December 2007, 2008 and 2009 was resulted from the acquisition of additional interests in the subsidiaries, TNE and Camex LLC, which represents the difference between the fair value of the considerations given and the carrying amount of the net assets attributable to the additional interests in TNE and Camex LLC acquired from the holders of the minority interests.

The Target Company

The movements in the reserves of the Target Company during the period from 3 November 2009 (date of incorporation of the Target Company) to 31 December 2009 were as follows:

	Share premium	**Contributed surplus**	**Accumulated loss**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Restructuring:				
Issue of shares in exchange for interest in Camex Pte *(note (d))*	–	137,758	–	137,758
Issue of shares in exchange for interest in Grand Title *(note (e))*	156,800	(156,800)	–	–
Loss for the period	–	–	(1)	(1)
At 31 December 2009	156,800	(19,042)	(1)	137,757

Notes:

(*d*) Contributed surplus of the Target Company represents the excess of the cost of investment in Camex Pte over the nominal value of the shares of the Target Company issued in exchange for the interest in Camex Pte pursuant to the Restructuring as mentioned in note 1.

(*e*) Share premium arose from the transfer of 49% effective interest in the share capital of the Target Company with fair value of approximately US$156,800,000 to the Party as defined in note 1 in exchange for the issued share capital of Grand Title as detailed in note 29.

(*f*) Among the consolidated loss attributable to owners of the Target Company for the year ended 31 December 2009 of US$158,070,000, loss of US$1,000 has been dealt with in the financial statements of the Target Company.

28. BUSINESS COMBINATIONS

(a) Acquisition of 54.5% equity interest in Camex LLC

On 5 June 2007, Camex Pte acquired 54.5% equity interest in Camex LLC in the name of the Three Individuals as defined in note 27 at the cash consideration of US$1,755,000 who were holding the shares of Camex LLC on behalf of Camex Pte. Those acquired shares in Camex LLC were subsequently transferred back to Camex Pte by the Three Individuals on 26 July 2007. The acquisition is accounted for using purchase method. The fair values of the identifiable assets and liabilities of Camex LLC and its subsidiaries (collectively referred to as the "Camex LLC Group") on the date of acquisition are as follows:

	Carrying amount and fair value on the date of acquisition
	US$'000
Property, plant and equipment	268
Interests in leasehold land	10
Exploration and evaluation assets	220,823
Other intangible assets	4
Receivables, prepayment and deposits	167
Cash and bank balances	195
Amount due to a director	(1,841)
Other payables and accruals	(1,079)
Government subsidies	(427)
Deferred tax liabilities	(54,768)
Net assets	163,352
Minority interests	(32,995)
	130,357
Net assets acquired — 54.5%	71,045
Excess over the cost of business combination *(note (i))*	(69,290)
Total consideration	1,755
Satisfied by:	
Cash	1,755
Net cash inflow/outflow in respect of the acquisition:	
Bank balances and cash acquired	195
Cash consideration	(1,755)
Net cash outflow	(1,560)

Notes:

(i) The excess of Camex Pte's interest in the fair value of the identifiable assets and liabilities of Camex LLC Group on the date of acquisition over the cost of the acquisition is a bargain purchase.

(ii) Since Camex LLC Group has not yet generated any revenue and its net result for the year ended 31 December 2007 is insignificant, it did not have significant contribution to Camex Pte Group's revenue and result for the period from the date of acquisition to 31 December 2007 or for the period from the date of incorporation of Camex Pte to 31 December 2007 had the acquisition been taken place on 23 February 2007.

28. BUSINESS COMBINATIONS *(Continued)*

(b) Acquisition of remaining 45.5% equity interest in Camex LLC

On 26 July 2007, Camex Pte acquired the remaining 45.5% equity interest in Camex LLC by way of issuing 4,550,000 new shares of Camex Pte to the minority shareholders of Camex LLC. The financial position of Camex LLC Group on the date of acquiring the remaining 45.5% equity interest in Camex LLC by Camex Pte is as follows:

	US$'000
Net assets acquired	59,312
Difference between the share of net assets acquired and the consideration *	3,752
Total consideration	63,064
Satisfied by:	
Shares issued by Camex Pte *(note)*	63,064

* dealt with in capital reserve

Note:

The fair value of the shares issued by Camex Pte is determined with reference to the fair value of the equity interest in Camex LLC and the cash contribution from the Three Individuals as mentioned in note 27(b) which were the major assets of Camex Pte Group on the date of the acquisition.

28. BUSINESS COMBINATIONS *(Continued)*

(c) Acquisition of remaining 20% equity interest in TNE

On 27 November 2009, Camex LLC acquired the remaining 20% equity interest in TNE at cash consideration of approximately MNT280,091,000 which was subsequently amended to MNT407,443,000 (equivalent to approximately US$284,000) pursuant to the supplementary agreement signed on 1 December 2009. The financial position of TNE on the date of acquiring the remaining 20% equity interest in TNE by Camex LLC is as follows:

	US$'000
Net assets acquired	26,728
Difference between the share of net assets acquired and the consideration *	(26,444)
Total consideration	284
Satisfied by:	
Cash *(note)*	284

* dealt with in capital reserve

Note:

Part of the consideration for the acquisition is offset against the amount due by the holder of the 20% equity interest in TNE to the Target Group amounting US$118,000.

As at 31 December 2009, part of the consideration amounting to MNT 127,352,000 (equivalent to approximately US$89,000) has not been settled. Accordingly, net cash outflow in respect of the acquisition during the year ended 31 December 2009 amounted to MNT 280,091,000 (equivalent to approximately US$195,000).

29. SHARE-BASED PAYMENT

Pursuant to the Restructuring taken place on 28 November 2009 as mentioned in note 1, the Party obtained 49% effective interest in the share capital of the Target Company in consideration for the transfer of the entire issued share capital of Grand Title by the Party to Camex Pte (the "Arrangement"). The Arrangement is accounted for as a share-based payment.

On the date of the Restructuring, Grand Title had net liabilities of less than US$1,000. Grand Title has not carried out any business activities except for signing of a memorandum (the "Memorandum") with the Ministry of Road, Transportation, Construction and Urban Development of Mongolia on 15 April 2009 in respect of the implementation in Mongolia of construction, housing and infrastructure development projects with the provision of mining concessions. In the opinion of the directors of the Target Company, the proposal under the Memorandum, if duly executed, would bring in significant economic benefits to the Target Group.

Grand Title had nominal net liabilities and no business operations at the date of acquisition. Accordingly, the directors are of the opinion that the acquisition of Grand Title is a purchase of net liabilities and does not constitute a business combination for accounting purposes and consequently, no goodwill is recognised.

The Memorandum does not meet the definition of an asset under HKFRS as the expected future economic benefits arising are not yet controlled by Grand Title. The difference between the fair value of the equity interests granted of US$156,800,000 and the fair value of the identifiable goods and services received of less than US$1,000 in deficit is recognised as unidentifiable goods or services received in accordance with HK (IFRIC)-Int 8 and is charged to the consolidated statement of comprehensive income for the year ended 31 December 2009 under administrative expenses. The corresponding amount is credited to share capital and share premium.

30. OPERATING LEASE COMMITMENTS

At each reporting date, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings of the Target Group are as follows:

	As at 31 December		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Within one year	104	60	63
In the second to fifth years, inclusive	50	–	24
	154	60	87

The Target Group leases a number of properties under operating leases which run for an initial period of 1 to 2 years. None of these leases include contingent rentals.

The Target Company did not have any significant operating lease commitments and arrangements as at 31 December 2009.

31. CAPITAL COMMITMENTS

The Target Group had outstanding capital commitments as follows:

	As at 31 December		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Purchases of property, plant and equipment *(note (i))*	4,686	3,571	3,140
Acquisition of technical know-how	471	347	345
Other commitments related to exploration and evaluation activities	64	70	102
	5,221	3,988	3,587

31. CAPITAL COMMITMENTS *(Continued)*

Notes:

(i) Pursuant to the tender submitted to the relevant government authority of Mongolia dated 18 August 2006 which was accepted by the government authority on 11 October 2006, TNE has to establish a processing plant for the production of smokeless fuel product at an estimated investment cost of MNT 5,835 million (equivalent to approximately US$5 million). In connection to this, TNE received subsidies from the government amounted to MNT 1,186 million (equivalent to approximately US$936,000) in aggregate up to 31 December 2008. The tender refers to a number of performance targets including the commencement of operation and production of the processing plant in March 2008, the production of a specified quantity of smokeless fuel per year and the capital injection of MNT 5,835 million (equivalent to approximately US$5 million) by March 2008. However, the performance targets are not yet achieved up to the date of this report.

Based on (i) a contract accomplishment notice dated 8 October 2008 was signed by TNE and the government authority confirming that the subsidies granted to TNE have been used for the construction of the processing plant and that the government has agreed to provide additional funding for the project; (ii) management has been actively communicating with the government authority regarding revising the existing investment plan as well as seeking for additional subsidies; and (iii) the legal advisors of Camex LLC Group, having considered the tender, the contract accomplishment notice and the circumstance arising, opine that it is very unlikely for the government to hold TNE responsible for the performance targets, the directors have assessed that the fact that the performance targets as set forth in the tender are not yet achieved do not result in the significant financial impact to Camex Pte Group. The outstanding commitment with reference to the existing investment plan amounted to approximately MNT 5,482 million (equivalent to approximately US$4,686,000), MNT 4,526 million (equivalent to approximately US$3,571,000), and MNT 4,505 million (equivalent to approximately US$3,140,000) respectively as at 31 December 2007, 2008 and 2009 is disclosed herein. The entire amount of the government subsidies received were accounted for as liabilities until TNE and the government authority have come into a conclusion on the revised investment plan and the additional subsidies for the processing plan.

(ii) Apart from the above, pursuant to the founding agreement signed by Camex LLC in respect of the subsidiary, Kores, on 22 August 2006, Camex LLC is required to contribute an amount of US$800,000 in respect of the exploration project of Kores by 31 December 2007. Otherwise, the two exploration licences transferred by the joint venture partner to Kores as mentioned in note 16(b) will be returned to the joint venture partner. However, the amount of contribution made by Camex LLC to Kores as at 31 December 2007, 2008 and 2009 amounted to approximately US$510,000, US$581,000 and US$588,000 respectively, and Camex LLC's outstanding commitment in respect of the investment in Kores as at 31 December 2007, 2008 and 2009 was approximately US$290,000 (approximately MNT 340 million), US$219,000 (approximately MNT 278 million) and US$212,000 (approximately MNT 304 million) respectively. Camex LLC received a letter from the joint venture partner dated 14 January 2010 confirming that it is committed to give continuous support to Kores and the exploration project of Kores and it will not request for return of the exploration licences.

32. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Save as disclosed elsewhere in this Financial Information, the following transactions were carried out by the Target Group with related parties:

	Period from 23 February 2007 to 31 December 2007	Year ended 31 December	
		2008	2009
	US$'000	*US$'000*	*US$'000*
Management fee received from a related company *(note (i))*	–	24	8
Interest income received from a related company *(note (i))*	–	1	–
Management fee paid to a related company *(note (i))*	4	2	–
Rental for office premises paid to a related company *(note (i))*	52	114	84
Acquisition of exploration licences from a shareholder	235	–	–

Notes:

(i) These companies are related to the Target Group by way of common beneficial owners.

(ii) These transactions were entered into in the ordinary course of business with reference to the terms negotiated between the Target Group and the related parties.

(b) Key management personnel compensation

	Period from 23 February 2007 to 31 December 2007	Year ended 31 December	
		2008	2009
	US$'000	*US$'000*	*US$'000*
Short-term employee benefits	46	133	273
Post employment benefits	7	13	10
	53	146	283

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Target Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and its investment activities. The financial risks include market risk (including currency risk and interest risk), credit risk and liquidity risk. The Target Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. Risk management is carried out by key management under the policies approved by the board of directors. The Target Group does not have written risk management policies. However, the directors and senior management of the Target Group meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks.

(a) Categories of financial assets and liabilities

Financial assets

	The Target Group		
	As 31 December		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Loans and receivables			
Amount due from a director	2,961	2,996	2,956
Amounts due from minority shareholders	3	121	3
Other receivables	40	51	24
Cash and cash equivalents	3,254	206	31
	6,258	3,374	3,014

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

(a) Categories of financial assets and liabilities *(Continued)*

Financial liabilities

	The Target Group As 31 December		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Financial liabilities measured at amortised cost:			
Amount due a director	2,125	2,417	3,079
Amount due to a minority shareholder	63	26	–
Other payables and accruals	223	168	219
	2,411	2,611	3,298

	The Target Company As 31 December		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Financial liabilities at amortised cost:			
Amount due to a director	–	–	1

(b) Financial risk management

Market risk – Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Target Group's exposures to currency risk mainly arise from the purchases of property, plant and equipment and expenditures on exploration and evaluation activities by certain Mongolian subsidiaries with functional currency of MNT while part of those purchases are denominated in US$. In addition, certain current accounts of those Mongolian subsidiaries with related parties are denominated in US$. The Target Group has not entered into any derivate instruments to hedge the foreign exchange exposures, however, the management continuously monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Market risk – Foreign currency risk *(Continued)*

Financial assets and liabilities of those Mongolian subsidiaries denominated in US$ are summarised as follows:

	The Target Group		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Amounts due from related parties	3	3	3
Other receivables	22	16	20
Cash and cash equivalents	739	26	9
Amounts due to related parties	(5,198)	(7,239)	(7,757)
Other payables and accruals	(180)	(38)	(38)
Net exposure	(4,614)	(7,232)	(7,763)

The following table illustrates the sensitivity of the Target Group's profit/(loss) after tax during the Relevant Periods in regards to a 5%, 5% and 10% depreciation in MNT against US$ as at 31 December 2007, 2008 and 2009 respectively. These rates are the rates used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

The sensitivity analysis of the Target Group's exposure to foreign currency risk at the reporting date has been determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year.

	The Target Group		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
	– 5%	*– 5%*	*– 10%*
Decrease in profit/Increase in loss after tax and decrease in retained profit/increase in accumulated losses	231	362	776

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Market risk – Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Group does not have significant exposure to interest rate risk as it has no significant interest-bearing assets and liabilities and the Target Group's income, expenses and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instruments and cause as a financial loss to the Target Group. The Target Group's and the Target Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statements of financial position. In the option of the directors, the Target Group's exposure to credit risk is insignificant.

In order to minimise the credit risk, the management compiles the credit and risk management policies, to approve credit limits and to determine any debt recovery action on those delinquent receivables. In addition, the Target Group reviews the recoverable amount for each individual receivable at each reporting dates to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the board of director considers that the Target Group's credit risk is effectively controlled and significantly reduced. Credit risk on cash at banks is mitigated as cash is deposited in banks of high credit rating.

None of the Target Group's and the Target Company's financial assets are secured by collateral or other credit enhancements except for those disclosed in note 21.

The credit policy has been followed by the Target Group during the Relevant Periods and is considered to have been effective in limiting the Target Group's and the Target Company's exposure to credit risk to a decisive level.

Liquidity risk

Liquidity risk relates to the risk that the Target Group will not be able to meet its obligations associated with its financial liabilities. The Target Group is exposed to liquidity risk in respect of settlement of its financing obligations, and also in respect of its cash flow management. The Target Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The Target Group had net current liabilities of US$271,000 as at 31 December 2009. The Target Group is able to maintain its liquidity by obtaining continuing financial support from the shareholders. The liquidity policies have been followed by the Target Group during the Relevant Periods and are considered to have been effective in managing liquidity risks.

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Liquidity risk *(Continued)*

The maturity profile of the Target Group's and the Target Company's financial liabilities as at each of the reporting dates, based on the contracted undiscounted payments, was as follows:

The Target Group

	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand
	US$'000	*US$'000*	*US$'000*
At 31 December 2007			
Amount due to a director	2,125	2,125	2,125
Amount due to a minority shareholder	63	63	63
Other payables and accruals	223	223	223
	2,411	2,411	2,411
At 31 December 2008			
Amount due to a director	2,417	2,417	2,417
Amounts due to minority shareholders	26	26	26
Other payables and accruals	168	168	168
	2,611	2,611	2,611
At 31 December 2009			
Amount due to a director	3,079	3,079	3,079
Other payables and accruals	219	219	219
	3,298	3,298	3,298

The financial liabilities of the Target Company as at 31 December 2009 amounted to US$1,000 which is due on demand.

(c) Fair value estimation

The fair values of the Target Group's and the Target Company's financial asset and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

34. CAPITAL MANAGEMENT

The Target Group's primary objectives in managing capital include:

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

(ii) To support the Target Group's stability and growth; and

(iii) To provide capital for the purpose of strengthening the Target Group's risk management capability.

The Target Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Target Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Target Group currently does not adopt any formal dividend policy. Management regards total equity and the continuing financial support from shareholders as capital.

35. SUBSEQUENT EVENTS

No significant events have taken place within the Target Group subsequent to 31 December 2009.

36. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of its subsidiaries in respect of any period subsequent to 31 December 2009.

Yours faithfully,

Grant Thornton
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

1.2 MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

For the period from 23 February 2007 (date of incorporation of Camex Pte) to 31 December 2007

Results and financial position

The Target Group mainly operates in Mongolia and engages in the business of mining and exploration of mineral resources. The Target Group has not commenced mining operation and accordingly, it did not generate any revenue or incur costs for sales during the period ended 31 December 2007.

For the period ended 31 December 2007, the Target Group incurred other operating expenses in the amount of approximately USD205,000 which represented the cost of steel melting project being written off.

Administrative expenses of the Target Group for the period ended 31 December 2007 amounted to approximately USD421,000. It mainly include staff costs of about USD76,000, property rental of approximately USD59,000, net depreciation charges of about USD8,000, travelling expenses of about USD45,000, net exchange loss of about USD21,000, legal and professional fees of approximately USD119,000 and other general expenses of about USD93,000 which mainly comprised electricity, printing and telephone charges.

The Target Group recorded a profit of approximately US$68,716,000 for the period ended 31 December 2007 which is principally contributed by the negative goodwill in capital nature, arising from the acquisition of 54.5% equity interest in Camex LLC, amounting to approximately USD69,290,000. No income tax has been provided as the Target Group did not derive assessable profits in any jurisdiction during the period ended 31 December 2007. As at 31 December 2007, the audited net assets was approximately US$171 million (equivalent to approximately HK$1,325.3 million).

Capital structure, liquidity, financial resources

As at 31 December 2007, the Target Group held cash and bank balances of approximately USD3.3 million and the current ratio was about 2.62.

The Target Group was solely financed by the proceed from issue of shares of Camex Pte in the amount of USD10 million during the period ended 31 December 2007.

The gearing ratio (defined as total bank borrowings over equity) of the Target Group was nil as at 31 December 2007.

Treasury policies, exchange risk and hedging

Except for purchases of property, plant and equipment and expenditures on exploration and evaluation activities by certain subsidiaries with functional currency of MNT while part of those purchases are denominated in United Stated Dollars, the Target Group did not have any exposure to fluctuations in exchange rates or any related hedges as at 31 December 2007. The Target Group also adopted a conservative treasury policy to minimize the foreign exchange risks.

Charges on assets

As at 31 December 2007, the Target Group had no pledged assets.

Contingent liabilities

As at 31 December 2007, the Target Group did not have any significant contingent liabilities.

Significant investments, material acquisitions and disposals

Save for the acquisition of 100% equity interest in Camex LLC by way of cash consideration of approximately USD1.755 million for 54.5% equity interest in June 2007 and by way of shares swap for the remaining 45.5% equity interest in July 2007, the Target Group did not undertake any significant investment or have any material acquisition or disposal of any subsidiary, associate or joint venture during the period ended 31 December 2007.

Employees and remuneration policy

The Target Group has an average of 24 employees during the period ended 31 December 2007 and the total remuneration paid was approximately USD107,000. Employee remuneration packages were maintained at competitive levels.

In order to retain and attract high caliber executives and employees, the Target Group rewards its employees according to prevailing market practices, employees' individual experience and performance are reviewed regularly. In addition to the provision of annual bonus, retirement benefit and medical insurance coverage and discretionary bonuses are also available to employees based on their performance.

Future plans and prospects

The Target Group would continue to allocate resources and investments for further development of the natural resources and mining business.

For the year ended 31 December 2008

Results and financial position

The Target Group mainly operates in Mongolia and engages in the business of mining and exploration of mineral resources. The Target Group has not commenced mining operation and accordingly, it did not generate any revenue or incur costs for sales during the year ended 31 December 2008.

Administrative expenses of the Target Group for the year ended 31 December 2008 amounted to approximately USD1,180,000. It mainly include staff costs of about USD261,000, property rental of approximately USD140,000, net depreciation charges of about USD25,000, travelling expenses of about USD62,000, net exchange loss of about USD414,000, legal and professional fees of approximately USD128,000 and other general expenses of about USD150,000 which mainly comprised electricity, printing and telephone charges.

Administrative expenses increased by 180.3% to approximately USD1,180,000 in 2008 from USD421,000 in 2007. The increment is primarily attributable to i) increased staff costs due to the recruitment of senior management of Camex LLC Group in early 2008 to cope with the expansion in operations, and ii) increased rental expense due to provision of staff accommodation to those senior management. Target Group recorded a loss of approximately US$1,147,000 for the year ended 31 December 2008. No income tax has been provided as the Target Group did not derive any assessable profits in any jurisdiction during the year ended 31 December 2008. The Target Group continued to maintain a healthy financial position with net assets of approximately USD157 million (equivalent to approximately HK$1,216.8 million).

Capital structure, liquidity, financial resources

As at 31 December 2008, the Target Group held cash and bank balances of approximately USD206,000 and the current ratio was about 1.3.

The Target Group was financed by internal fund during the year ended 31 December 2008.

The gearing ratio (defined as total bank borrowings over equity) of the Target Group was nil as at 31 December 2008.

Treasury policies, exchange risk and hedging

Except for purchases of property, plant and equipment and expenditures on exploration and evaluation activities by certain subsidiaries with functional currency of MNT while part of those purchases are denominated in United Stated Dollars, the Target Group did not have any exposure to fluctuations in exchange rates or any related hedges as at 31 December 2008. The Target Group also adopted a conservative treasury policy to minimize the foreign exchange risks.

Charges on assets

As at 31 December 2008, the Target Group had no pledged assets.

Contingent liabilities

As at 31 December 2008, the Target Group did not have any significant contingent liabilities.

Significant investments, material acquisitions and disposals

Other than the investment in 100% share capital of Camex LLC, the Target Group did not undertake any significant investment or have any material acquisition or disposal of any subsidiary, associate or joint venture during the year ended 31 December 2008.

Employees and remuneration policy

The Target Group has an average 35 employees during the year and the total remuneration paid was approximately USD367,000. Employee remuneration packages were maintained at competitive levels.

In order to retain and attract high caliber executives and employees, the Target Group rewards its employees according to prevailing market practices, employees' individual experience and performance are reviewed regularly. In addition to the provision of annual bonus, retirement benefit and medical insurance coverage and discretionary bonuses are also available to employees based on their performance.

Future plans and prospects

The Target Group would continue to allocate resources and investments for further development of the natural resources and mining business.

For the year ended 31 December 2009

Results and financial position

The Target Group principally operates in Mongolia and engages in the business of mining and exploration of mineral resources. The Target Group has not commenced any business activities except to effect restructuring and accordingly, it did not generate any revenue or incur costs for sales during the year ended 31 December 2009.

Administrative expenses of the Target Group for the year ended 31 December 2009 amounted to approximately USD158,090,000. It mainly include staff costs of about USD326,000, property rental of approximately USD109,000, net depreciation charges of about USD15,000, travelling expenses of about USD51,000, net exchange loss of about USD547,000, share-based payment of approximately USD156,800,000, legal and professional fees of approximately USD78,000 and other general expenses of about USD164,000 which mainly comprised electricity, printing and telephone charges.

Administrative expenses increased by USD156,910,000 representing an increase of 13,297.4% in 2009 from 2008. The increment is primarily attributable to the increase in share-based payment of approximately USD156,800,000.

The Target Group recorded a loss of approximately US$158,077,000 for the year ended 31 December 2009. No income tax has been provided as the Target Group did not derive assessable profits in any jurisdiction during the year ended 31 December 2009. As at 31 December 2009, the audited net assets was approximately US$138 million (equivalent to approximately HK$1,069.5 million).

Capital structure, liquidity, financial resources

As at 31 December 2009, the Target Group's cash at banks and in hand balances, amounted to a total of approximately USD31,000 and the current ratio was about 0.92. The Target Group was financed by internal fund during the year ended 31 December 2009.

The gearing ratio (defined as total bank borrowings over equity) was nil as at 31 December 2009.

Treasury policies, exchange risk and hedging

Except for purchases of property, plant and equipment and expenditures on exploration and evaluation activities by certain subsidiaries with functional currency of MNT while part of those purchases are denominated in United Stated Dollars, the Target Group did not have any exposure to fluctuations in exchange rates or any related hedges as at 31 December 2009. The Target Group also adopted a conservative treasury policy to minimize the foreign exchange risks.

Charges on assets

As at 31 December 2009, the Target Group had no pledged assets.

Contingent liabilities

As at 31 December 2009, the Target Group did not have any significant contingent liabilities.

Significant investments, material acquisitions and disposals

Save for the acquisition of the entire issued share capital of Camex Pte, the Target Group did not undertake any significant investments, material acquisition or disposal of subsidiaries or assets during the year ended 31 December 2009.

Employees and remuneration policy

The Target Group has an average 32 employees during the year and the total remuneration paid was approximately USD403,000. Employee remuneration packages were maintained at competitive levels.

In order to retain and attract high caliber executives and employees, the Target Group rewards its employees according to prevailing market practices, employees' individual experience and performance are reviewed regularly. In addition to the provision of annual bonus, retirement benefit and medical insurance coverage and discretionary bonuses are also available to employees based on their performance.

Future plans and prospects

The Target Group will continue to allocate resources and investments for further development of the natural resources and mining business. The Target Group plans to maximise the coal production and improve its production efficiency by utilising advanced mining equipments and technologies. In order to secure stable and long-term demand from customers, the Target Group plans to enter into memorandum of understanding with potential customers for the supply of coal, balance the coal sales by pursuing both long-term supply contracts and sales in the spot market to maintain the flexibility in capturing market opportunities, diversify and improving the quality of products to meet the needs of its customers, and cultivate and maintain a stable and loyal customer base.

In addition, the Target Group will continue to seek growth opportunities in coal mining business and plan to enter into gold and copper mining where the right opportunity arises.

2 FINANCIAL INFORMATION OF CAMEX PTE

2.1 ACCOUNTANTS' REPORT ON CAMEX PTE

The following is the text of a report from Grant Thornton, the independent reporting accountants, in respect of the accountants' report on Camex Pte prepared for the sole purpose of inclusion in this circular.

Grant Thornton
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Member of Grant Thornton International Ltd.

12 May 2010

The Board of Directors
Ming Hing Waterworks Holdings Limited
Unit 1809 - 12, Telford House
16 Wan Hoi Road
Kowloon Bay
Hong Kong

Dear Sirs,

We set out below our report on the financial information of Central Asia Mineral Exploration Pte. Ltd. ("Camex Pte") and its subsidiaries (collectively referred to as the "Camex Pte Group"), including the consolidated statements of financial position of Camex Pte Group and the statements of financial position of Camex Pte as at 31 December 2007, 2008 and 2009, the consolidated statements of comprehensive income, the consolidated statements of cash flow and the consolidated statements of changes in equity for the period from 23 February 2007 (date of incorporation of Camex Pte) to 31 December 2007 and each of the years ended 31 December 2008 and 2009 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory notes thereto (collectively referred to as the "Financial Information"), prepared for inclusion in the circular (the "Circular") dated 12 May 2010 issued by Ming Hing Waterworks Holdings Limited (the "Company") in connection with its proposed very substantial acquisition (the "Acquisition") of 100% equity interest in Well Delight Holdings Limited (the "Target Company"). Pursuant to a restructuring exercise taken place on 28 November 2009, Camex Pte has become a direct wholly-owned subsidiary of the Target Company since that date.

Camex Pte was incorporated in Singapore on 23 February 2007 with limited liability. The principal activity of Camex Pte is investment holding.

As at the date of this report, Camex Pte has beneficial interest in the following subsidiaries:

Name	Place and date of incorporation/ registration	Type of legal entity	Particulars of issued and paid up capital	Percentage of issued capital held by Camex Pte		Principal activities
				Directly	*Indirectly*	
Central Asia Mineral Exploration LLC ("Camex LLC")	Mongolia, 17 August 2006	Limited liability company	10,000 shares of Mongolian Tugrik ("MNT") 1,200 each	100%	–	Mineral resources exploration and investment holding in Mongolia
Kores Mongolia LLC ("Kores")	Mongolia, 23 November 2006	Limited liability company	MNT11,640,000	–	70%	Mineral resources exploration in Mongolia
Tugrugnuuriin Energy LLC ("TNE")	Mongolia, 23 February 2005	Limited liability company	10,000 shares of MNT1,000 each	–	100%	Mining business in Mongolia
Camex GT LLC ("Camex GT")	Mongolia, 22 January 2007	Limited liability company	100 shares of MNT10,000 each	–	100%	Dormant
Grand Title Limited ("Grand Title")	British Virgin Islands ("BVI"), 10 November 2008	Limited liability company	1 share of US$1 each	100%	–	Investment holding

The percentage of issued capital of TNE held indirectly by Camex Pte as at 31 December 2007, 2008 and 2009 is 80%, 80% and 100% respectively. The percentage of issued capital of Camex LLC, Kores, Camex GT and Grand Title held by Camex Pte remains unchanged during the Relevant Periods or since the respective date of incorporation/acquisition.

All the companies within Camex Pte Group have adopted 31 December as their financial year end date. No audited financial statements have been prepared for Camex Pte since the date of its incorporation as it is exempted from statutory audit requirement under Companies (Amendment) Act 2005 of Singapore. No audited financial statements have been prepared for Camex LLC, Kores, TNE, Camex GT and Grand Title since the respective date of their incorporation as they were incorporated in countries where they are not subject to statutory audit requirements.

Basis of preparation

The Financial Information have been prepared by the directors of Camex Pte based on the unaudited financial statements of Camex Pte Group (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Financial Information also complies with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Responsibility

The directors of Camex Pte are responsible for the preparation of the Financial Information which are free from material misstatement and give a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable in the circumstances.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information and to report our opinion to you.

Basis of opinion

As a basis for forming an opinion on the Financial Information, we have carried out appropriate audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline - Prospectuses and the Reporting Accountant (Statement 3.340) issued by the HKICPA. No adjustments are considered necessary in respect of the Underlying Financial Statements for the preparation of the Financial Information.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the directors of Camex Pte in the preparation of the Financial Information, and of whether the accounting policies are appropriate to Camex Pte Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Camex Pte and Camex Pte Group as at 31 December 2007, 2008 and 2009 and of Camex Pte Group's results and cash flows for each of the Relevant Periods.

Emphasis of matter – Material uncertainty regarding the going concern assumption

Without qualifying our opinion, we draw your attention to note 2 to the Financial Information concerning the adoption of the going concern basis on which the Financial Information has been prepared. Camex Pte Group had net current liabilities of US$270,000 as at 31 December 2009. This condition, along with other matters as disclosed in note 2 to the Financial Information, indicate the existence of a material uncertainty which may cast doubt about Camex Pte Group's ability to continue as a going concern.

Consolidated Statements of Comprehensive Income

	Notes	**Period from 23 February 2007 (date of incorporation) to 31 December 2007**	**Year ended 31 December 2008**	**2009**
		US$'000	*US$'000*	*US$'000*
Revenue	*5*	–	–	–
Other income and gains		52	59	68
Administrative expenses		(421)	(1,180)	(158,089)
Other operating expenses		(205)	(26)	(55)
Operating loss		(574)	(1,147)	(158,076)
Excess over the cost of business combination	*7*	69,290	–	–
Finance costs	*8*	–	–	–
Profit/(Loss) before income tax	*9*	68,716	(1,147)	(158,076)
Income tax expense	*10*	–	–	–
Profit/(Loss) for the period/year		68,716	(1,147)	(158,076)
Other comprehensive income				
Exchange loss on translation of overseas operations		–	(12,458)	(17,457)
Other comprehensive income for the period/year, net of tax		–	(12,458)	(17,457)
Total comprehensive income for the period/year		68,716	(13,605)	(175,533)
Profit/(Loss) attributable to:				
Owners of Camex Pte	*12*	68,721	(1,129)	(158,069)
Minority interests		(5)	(18)	(7)
		68,716	(1,147)	(158,076)

Consolidated Statements of Comprehensive Income *(Continued)*

	Notes	**Period from 23 February 2007 (date of incorporation) to 31 December 2007**	**Year ended 31 December 2008**	**2009**
		US$'000	*US$'000*	*US$'000*
Total comprehensive income attributable to:				
Owners of Camex Pte		68,721	(11,050)	(171,826)
Minority interests		(5)	(2,555)	(3,707)
		68,716	(13,605)	(175,533)
		US$	*US$*	*US$*
Earnings/(Loss) per share attributable to owners of Camex Pte:	*14*			
Basic		24.587	(0.113)	(15.807)
Diluted		N/A	N/A	N/A

Consolidated Statements of Financial Position

		As at 31 December		
	Notes	**2007**	**2008**	**2009**
		US$'000	*US$'000*	*US$'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*15*	682	1,983	1,693
Interests in leasehold land	*16*	10	134	95
Exploration and evaluation assets	*17*	221,637	205,514	181,924
Other intangible assets	*18*	3	5	3
Prepayments for exploration, evaluation and mine development activities	*19*	409	488	436
		222,741	208,124	184,151
Current assets				
Amount due from a director	*22*	2,961	2,996	2,956
Amounts due from minority shareholders	*23*	3	121	3
Other receivables, prepayments and deposits		98	73	37
Cash and cash equivalents	*24*	3,254	206	31
		6,316	3,396	3,027
Current liabilities				
Amount due to a director	*25*	2,125	2,417	3,078
Amount due to a minority shareholder	*25*	63	26	–
Other payables and accruals		223	168	219
		2,411	2,611	3,297
Net current assets/(liabilities)		3,905	785	(270)
Total assets less current liabilities		226,646	208,909	183,881

Consolidated Statements of Financial Position *(Continued)*

		As at 31 December		
	Notes	**2007**	**2008**	**2009**
		US$'000	*US$'000*	*US$'000*
Non-current liabilities				
Government subsidies	*26*	855	936	826
Deferred tax liabilities	*27*	54,768	50,555	44,654
		55,623	51,491	45,480
Net assets		171,023	157,418	138,401
EQUITY				
Share capital	*28*	73,064	73,064	73,064
Reserves	*29*	64,969	53,919	65,337
Equity attributable to Camex Pte's owners		138,033	126,983	138,401
Non-controlling interests		32,990	30,435	–
Total equity		171,023	157,418	138,401

Statements of Financial Position

	Notes	As at 31 December 2007 *US$'000*	2008 *US$'000*	2009 *US$'000*
ASSETS AND LIABILITIES				
Non-current assets				
Investments in subsidiaries	*20*	64,819	64,819	64,819
Current assets				
Amount due from a subsidiary	*21*	3,100	4,873	4,671
Amount due from a director	*22*	2,961	2,996	2,956
Other receivables, prepayments and deposits		39	13	14
Cash and cash equivalents	24	2,081	12	20
		8,181	7,894	7,661
Current liabilities				
Other payables and accruals		12	3	3
Net current assets		8,169	7,891	7,658
Total assets less current liabilities/Net assets		72,988	72,710	72,477
EQUITY				
Share capital	*28*	73,064	73,064	73,064
Reserves	*29*	(76)	(354)	(587)
Total equity		72,988	72,710	72,477

Consolidated Statements of Cash Flow

	Period from 23 February 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	2009
	US$'000	US$'000	US$'000
Cash flows from operating activities			
Profit/(Loss) before income tax	68,716	(1,147)	(158,076)
Adjustments for:			
Amortisation of interests in leasehold land	–	6	23
Amortisation of other intangible assets	1	1	1
Net depreciation of property, plant and equipment	8	25	15
Excess over the cost of business combination	(69,290)	–	–
Loss on disposal of an exploration licence	–	6	–
Loss on disposal of property, plant and equipment	–	–	5
Interest income	(52)	(34)	(14)
Exchange difference	–	609	787
Share-based payment *(note 31)*	–	–	156,800
Operating loss before working capital changes	(617)	(534)	(459)
(Increase)/Decrease in amount due from a director	(2,961)	(35)	40
(Increase)/Decrease in amounts due from minority shareholders	(3)	(118)	119
Decrease in other receivables, prepayments and deposits	69	25	35
Increase in amount due to a director	284	292	661
Increase/(Decrease) in amount due to a minority shareholder	63	(37)	(26)
Decrease in other payables and accruals	(856)	(55)	(38)
Net cash (used in)/generated from operating activities	(4,021)	(462)	332

Consolidated Statements of Cash Flow *(Continued)*

	Period from 23 February 2007 (date of incorporation) to 31 December	Year ended 31 December	
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Cash flows from investing activities			
(Increase)/Decrease in prepayment for exploration, evaluation and mine development activities	(519)	(319)	52
Purchases of property, plant and equipment *(note)*	(321)	(1,315)	(119)
Payment for interests in leasehold land	–	(142)	–
Purchase of other intangible assets	–	(3)	–
Payments for exploration and evaluation activities *(note)*	(805)	(954)	(290)
Proceeds from disposal of property, plant and equipment	–	–	50
Acquisition of a subsidiary *(note 30(a))*	(1,560)	–	–
Acquisition of additional interests in a subsidiary *(note 30(c))*	–	–	(195)
Government subsidies received	428	147	–
Interest received	52	34	14
Net cash used in investing activities	(2,725)	(2,552)	(488)
Cash flows from financing activities			
Proceeds from issue of shares *(note 28(b))*	10,000	–	–
Net cash generated from financing activities	10,000	–	–
Net increase/(decrease) in cash and cash equivalents	3,254	(3,014)	(156)
Opening cash and cash equivalents	–	3,254	206
Effect of foreign exchange rate changes, net	–	(34)	(19)
Closing cash and cash equivalents	3,254	206	31

Note:

Expenditures amounting to US$110,000 incurred during the year ended 31 December 2007 were transferred from "prepayments" to "property, plant and equipment". In addition, expenditures amounting to US$240,000 incurred during the year ended 31 December 2008 were transferred as to US$210,000 from "prepayments" to "property, plant and equipment" and US$30,000 from "prepayments" to "exploration and evaluation assets".

Consolidated Statements of Changes in Equity

	Equity attributable to Owners of Camex Pte							
	Share capital *US$'000*	Capital contribution* *US$'000*	Translation reserve* *US$'000*	Capital reserve* *US$'000*	Retained profit/ (Accumulated losses)* *US$'000*	Total *US$'000*	Minority interests *US$'000*	Total equity *US$'000*
Capital injection *(note 28(b))*	10,000	–	–	–	–	10,000	–	10,000
Acquisition of a subsidiary *(note 30(a))*	–	–	–	–	–	–	92,307	92,307
Issue of shares on acquisition of minority interests *(note 30(b))*	63,064	–	–	(3,752)	–	59,312	(59,312)	–
Transactions with owners	73,064	–	–	(3,752)	–	69,312	32,995	102,307
Profit/(Loss) for the period	–	–	–	–	68,721	68,721	(5)	68,716
Other comprehensive income	–	–	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	68,721	68,721	(5)	68,716
At 31 December 2007 and 1 January 2008	73,064	–	–	(3,752)	68,721	138,033	32,990	171,023
Transactions with owners	–	–	–	–	–	–	–	–
Loss for the year	–	–	–	–	(1,129)	(1,129)	(18)	(1,147)
Other comprehensive income								
Exchange loss on translation of overseas operations	–	–	(9,921)	–	–	(9,921)	(2,537)	(12,458)
Total comprehensive income for the year	–	–	(9,921)	–	(1,129)	(11,050)	(2,555)	(13,605)
At 31 December 2008 and 1 January 2009	73,064	–	(9,921)	(3,752)	67,592	126,983	30,435	157,418
Acquisition of minority interests *(note 30(c))*	–	–	–	26,444	–	26,444	(26,728)	(284)
Share-based payment *(note 31)*	–	156,800	–	–	–	156,800	–	156,800
Transactions with owners	–	156,800	–	26,444	–	183,244	(26,728)	156,516
Loss for the year	–	–	–	–	(158,069)	(158,069)	(7)	(158,076)
Other comprehensive income								
Exchange loss on translation of overseas operations	–	–	(13,757)	–	–	(13,757)	(3,700)	(17,457)
Total comprehensive income for the year	–	–	(13,757)	–	(158,069)	(171,826)	(3,707)	(175,533)
At 31 December 2009	73,064	156,800	(23,678)	22,692	(90,477)	138,401	–	138,401

* The total of these balances represents reserves in the consolidated statements of financial position.

Notes to the Financial Information

1. GENERAL INFORMATION

Camex Pte was incorporated in Singapore on 23 February 2007 with limited liability. The address of its registered office and principal place of business is 101 Thomson Road, #16-05 United Square, Singapore.

The principal activity of Camex Pte is investment holding and the principal activities of Camex Pte' subsidiaries comprise mineral resources exploration and mining in Mongolia.

In the opinion of the directors of Camex Pte, as at 31 December 2009, the immediate holding company of Camex Pte is the Target Company, a company incorporated in the BVI, and the ultimate parent company of Camex Pte is Best State Holdings Limited ("Best State"), a company incorporated in the BVI.

2. BASIS OF PREPARATION

The Financial Information has been prepared in accordance with HKFRSs (including all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the HKICPA. The Financial Information also complies with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. These are the first set of financial statements of Camex Pte Group and the directors have adopted, in the first time, HKFRSs in preparing these financial statements. For the purpose of preparing the Financial Information, Camex Pte Group has adopted all applicable HKFRSs that are relevant to Camex Pte Group and are effective for the accounting period beginning 1 January 2009 throughout the Relevant Periods to the extent required by HKFRSs.

At the date of issue of this Financial Information, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by Camex Pte Group. The directors of Camex Pte anticipate that all of the pronouncements will be adopted in Camex Pte Group for the first period beginning after the effective date of the pronouncement. Information on new and revised HKFRSs that are expected to have impact on Camex Pte Group's accounting policies is provided below:

(i) HKFRS 3 Business combinations (2008 Revised)

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

2. BASIS OF PREPARATION *(Continued)*

(ii) HKAS 27 Consolidated and separate financial statements (2008 Revised)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in Camex Pte Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors do not expect the standard to have a material effect on Camex Pte Group's financial statements.

(iii) HKFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in statement of comprehensive income except for those on certain equity investments which will be presented in other comprehensive income. The directors are currently assessing the possible impact of the new standard on Camex Pte Group's results and financial position in the first year of application.

(iv) Annual improvements 2009

The HKICPA has issued Improvements to Hong Kong Financial Reporting Standards 2009. Most of the amendments become effective for annual periods beginning on or after 1 January 2010. The directors expect the amendment to HKAS 17 Leases to be relevant to Camex Pte Group's accounting policies. Prior to the amendment, HKAS 17 generally required a lease of land to be classified as an operating lease. The amendment requires a lease of land to be classified as an operating or finance lease in accordance with the general principles in HKAS 17. Camex Pte Group will need to reassess the classification of its unexpired leases of land at 1 January 2010 on the basis of information existing at the inception of those leases in accordance with the transitional provisions for the amendment. The amendment will apply retrospectively except where the necessary information is not available. In that situation, the leases will be assessed on the date when the amendment is adopted. The directors are currently assessing the possible impact of the amendment on the Camex Pte Group's results and financial position in the first year of application.

Certain other new and revised HKFRSs have been issued but are not expected to have a material impact to Camex Pte Group's financial statements.

The significant accounting policies that have been used in the preparation of the Financial Information are set out in note 3. These policies have been consistently applied throughout the Relevant Periods unless otherwise stated.

Camex Pte Group had net current liabilities of US$270,000 as at 31 December 2009. In addition, it has not yet commenced revenue-generating activities and it had capital commitments of approximately US$3.6 million as at 31 December 2009. In spite of these, the Financial Information has been prepared on a going concern basis since certain of the beneficial owners of the Target Company have agreed to provide adequate funds to enable Camex Pte Group to meet in full its financial obligations as they fall due. In addition, the Company has agreed to provide financial support to Camex Pte Group to enable Camex Pte Group to meet in full its financial obligations as they fall due upon completion of the Acquisition.

2. BASIS OF PREPARATION *(Continued)*

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 General

The Financial Information has been prepared under historical cost convention. The measurement bases are fully described in the accounting policies below.

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

3.2 Basis of consolidation

The Financial Information incorporates the financial statements of Camex Pte and its subsidiaries made up to 31 December each year.

Subsidiaries *(note 3.3)* are consolidated from the date on which control is transferred to Camex Pte Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from Camex Pte Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by Camex Pte Group.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.3 Subsidiaries

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

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

Changes in Camex Pte's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction.

In Camex Pte's statements of financial position, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by Camex Pte on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in Camex Pte's statement of comprehensive income.

3.4 Foreign currency translation

The Financial Information is presented in US Dollars ("US$"), which is also the functional currency of Camex Pte.

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

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.4 Foreign currency translation *(Continued)*

In preparing the Financial Information, all individual financial statements of the consolidated entities have been converted into US$. Assets and liabilities for each statement of financial position presented have been translated into US$ at the closing rates at the reporting date. Income and expenses for each statement of comprehensive income have been converted into US$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising therefrom is recognised in other comprehensive income and accumulated as a separate component of equity as translation reserve.

3.5 Goodwill

Goodwill arising from the acquisition of subsidiaries represents the excess of the cost of the business combination over the Camex Pte Group's interest in the net fair value of the identifiable assets acquired and liabilities including contingent liabilities assumed as at the date of acquisition. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by Camex Pte Group, plus any costs directly attributable to the business combination.

Goodwill arising on acquisition is initially recognised in consolidated statements of financial position as an asset at cost and subsequently measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually at the reporting date or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may be impaired *(note 3.12)*.

On subsequent disposal of a subsidiary, the carrying amount of goodwill relating to the entity sold is included in determining the amount of gain or loss on disposal.

3.6 Excess over the cost of business combinations

Any excess of Camex Pte Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in consolidated statements of comprehensive income.

3.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost, which comprise purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use, less accumulated depreciation and any impairment losses *(note 3.12)*.

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

3.7 Property, plant and equipment *(Continued)*

Depreciation for items of property, plant and equipment which form part of a mine processing plant is calculated based on unit-of-production basis. Depreciation for other items of property, plant and equipment is calculated using the straight-line method to write off the cost of property, plant and equipment, less any estimated residual values, over the following estimated useful lives:

Buildings	The shorter of the lease terms and 40 years
Plant and machinery	3-10 years
Furniture, fixtures and equipment	3-5 years
Motor vehicles	5 years

Depreciation for those items of property, plant and equipment which form part of a mine processing plant commences when the processing plant is capable of operating at commercial level. Depreciation for other items of property, plant and equipment commences when the asset is first available for use.

The assets' depreciation methods, estimated useful lives and residual values are reviewed and adjusted, if appropriate, at each reporting date.

Construction in progress represents asset in the course of construction for production or for its own use purpose and is stated at cost less any impairment loss. Cost comprises construction expenditure and other direct costs attributable to such projects and is reclassified to the appropriate category of property, plant and equipment when completed and ready for intended use.

The gain or loss on retirement or disposal of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated statements of comprehensive income.

3.8 Interests in leasehold land

Interests in leasehold land are up-front prepayments made for the leasehold land and land use rights which are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on a straight-line basis over the lease term. The determination if an arrangement is or contains a lease and the lease is an operating lease is detailed in note 3.19.

3.9 Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any accumulated impairment losses. Exploration and evaluation assets include the cost of obtaining/acquiring and maintaining mining and exploration rights, expenditures incurred in the search for mineral resources as well as the determination of the technical feasibility and commercial viability of extracting those resources. They also include administration costs and finance cost which relate to specific exploration and evaluation activities. Such expenditures incurred before obtaining the legal rights to explore specific area are charged to the consolidated statements of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.9 Exploration and evaluation assets *(Continued)*

When the technical feasibility and commercial viability of extracting mineral resources become demonstrable, previously recognised exploration and evaluation assets are transferred to other intangible assets (i.e. mine development assets) or other fixed assets. These assets are assessed for impairment before reclassification.

The carrying amount of the exploration and evaluation assets is reviewed annually or when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. Such facts and circumstances include:

(i) the period for which Camex Pte 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;

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

(iii) 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 Camex Pte Group has decided to discontinue such activities in the specific area; or

(iv) 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 or by sale.

In any such case, or similar cases, Camex Pte Group performs an impairment test in accordance with HKAS 36 “Impairment of Assets” *(note 3.12)*.

3.10 Prepayments for exploration, evaluation and mine development activities

Prepayments for exploration, evaluation and mine development activities are stated at cost and are recognised as exploration and evaluation assets, other intangible assets or other fixed assets as appropriate when work has been performed.

3.11 Other intangible assets – software

Software acquired separately and with finite useful lives is carried at cost less accumulated amortisation and any accumulated impairment losses. Software is amortised on a straight-line basis over their estimated useful lives of 3 to 5 years.

3.12 Impairment of non-financial assets (excluding exploration and evaluation assets)

Goodwill, other intangible assets, property, plant and equipment, interests in leasehold land and investments in subsidiaries are subject to impairment testing. Goodwill and other intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset’s carrying amount may not be recoverable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Impairment of non-financial assets (excluding exploration and evaluation assets) *(Continued)*

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

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within Camex Pte Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

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

3.13 Financial assets

Camex Pte Group's financial assets are classified into loans and receivables including amounts due from related parties. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, Camex Pte Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expired or are transferred and substantially all of the risks and rewards of ownership have been transferred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.13 Financial assets *(Continued)*

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Loans and receivables

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

Impairment of financial assets

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment. Objective evidence of impairment of individual financial assets includes observable date that come to the attention of Camex Pte Group about one or more of the followings loss events:

– significant financial difficulty of the debtors;

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

– it becoming probable that the debtors will enter bankruptcy or other financial reorganisation; and

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

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.13 Financial assets *(Continued)*

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

3.14 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand and demand deposits with banks. For the purpose of the consolidated statements of cash flow presentation, cash and cash equivalents include bank overdrafts which form an integral part of Camex Pte Group's cash management.

3.15 Financial liabilities

Financial liabilities of Camex Pte Group include payables and accruals including amounts due to related parties.

Financial liabilities are recognised when Camex Pte Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with Camex Pte Group's accounting policy for borrowing costs *(note 3.24)*.

Financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

3.16 Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.16 Accounting for income taxes *(Continued)*

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profits, including existing temporary difference, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

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

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

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

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

3.17 Short-term employee benefits and retirement benefit costs

Short-term employee benefits

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

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

Pension scheme

Retirement benefits to employees are provided through defined contribution plans. A defined contribution plan is a pension plan under which Camex Pte Group pays fixed contributions into a separate entity. Contributions to defined contribution plans are recognised as expense in the statement of comprehensive income as employees render services during the year. Camex Pte Group's obligations under these plans is limited to the fixed percentage contributions payable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.18 Provisions and contingent liabilities

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

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

3.19 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if Camex Pte Group determines that the arrangement conveys a right to use 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.

Lease where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Where Camex Pte Group has the right to use the assets held under operating leases, payments made under the leases are charged to statement of comprehensive income on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the aggregate net lease payments made. Contingent rental are charged to the consolidated statements of comprehensive income in the accounting period in which they are incurred.

3.20 Share capital

Ordinary shares are classified as equity. Any transaction costs associated with the issuing of shares are deducted from share capital account (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

3.21 Share-based compensation

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date the financial instruments are granted. The cost of equity-settled transactions with parties other than employees is measured by reference to the fair value of the goods or services provided on the date the goods are obtained or services being rendered by the counterparty.

Where the fair value of equity instruments granted in a share-based payment transaction is greater than the fair value of the identifiable goods and services received or where the goods or services received cannot be specifically identified, the Target Group measures the unidentifiable goods or services received as the difference between the fair value of the share-based payment measured at grant date and the fair value of any identifiable goods and services received.

The cost of equity-settled transactions is recognised as an expense or an asset if qualified as such with a corresponding increase in share-based payment reserve within equity. If vesting periods or other vesting conditions apply, the cost of equity-settled transaction is allocated using straight-line basis over the vesting period, based on the best available estimate of the number of financial instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of financial instruments that are expected to become exercisable. Estimates are subsequently revised if there is indication that the number of financial instruments expected to vest differs from previous estimates. Any adjustment to the fair value recognised in prior years is charged/credited to the statement of comprehensive income or reflected in the amount of asset recognised in the year of the review with a corresponding adjustment to the share-based payment reserve.

On vesting date, the amount recognised as an expense or an asset is adjusted to reflect the actual number of financial instruments that vest (with a corresponding adjustment to the share-based payment reserve) except where forfeiture is only due to not achieving vesting that relate to market condition (which is treated as vesting irrespective of whether or not the market condition is satisfied).

At the time when the financial instruments are vested, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the financial instruments are forfeited or are still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to retained profits.

3.22 Revenue and other income recognition

Revenue is measured at fair value of the consideration received or receivable net of discounts and sales related taxes. Revenue and other income are recognised when it is probable that the economic benefits will flow to Camex Pte Group and when the revenue and costs, if applicable, can be measured reliably, on the following bases:

(i) Sales of goods – when the significant risks and rewards of ownership have been transferred to the buyer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

(ii) Interest income – on a time proportion basis using the effective interest method.

(iii) Dividend is recognised when the right to receive payment is established.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.23 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and Camex Pte Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the consolidated statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are deducted from the carrying amount of the property, plant and equipment.

3.24 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Other borrowing costs are expensed when incurred.

3.25 Related parties

For the purpose of this Financial Information, a party is considered to be related to Camex Pte Group if:

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

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

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

(iv) the party is a member of key management personnel of Camex Pte 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 Camex Pte Group, or of any entity that is a related party of Camex Pte 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical judgements

Going concern basis

The assessment of the going concern assumption involves making judgement by the directors of Camex Pte, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The directors of Camex Pte consider that Camex Pte and Camex Pte Group have the ability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumption are set out in note 2.

4.2 Critical accounting estimates and assumptions

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

Impairment of exploration and evaluation assets

Under the full cost method of accounting exploration and evaluation costs, such costs are capitalised by reference to appropriate cost pools, and are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This assessment involves judgement as to (i) the likely future commerciality of the asset and when such commerciality should be determined; and (ii) future revenues and costs pertaining to the asset in question, and the discount rate to be applied to such revenues and cost for the purpose of deriving a recoverable value. While conducting an impairment review of its assets, management of Camex Pte Group exercise certain judgements in making assumptions about the future market prices, reserves and future development and production costs. Changes in these estimates may result in significant changes to statement of comprehensive income.

Estimated useful lives of property, plant and equipment

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives. The estimation of useful lives of the depreciable assets is based on the experience of the management, and useful lives are reviewed at each reporting date based on changes in circumstances. When useful lives of property, plant and equipment are different from that previously estimated, the depreciation charges for future periods will be adjusted accordingly.

Provision for reclamation and closure cost

Provision for reclamation and closure cost is estimated based on management's interpretation of current regulatory requirements and their past experiences. Provision set up, if any, is reviewed regularly by management to ensure it properly reflects the obligation arising from the mining and exploration activities.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.2 Critical accounting estimates and assumptions *(Continued)*

Estimates of current and deferred tax

Camex Pte Group is exposed to income taxes in different jurisdictions. Significant judgement is required in determining the provision for taxation and timing of payment of related taxes. Determining income tax provisions involves judgement on the future tax treatment of certain transactions. Camex Pte Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Where the final tax outcome of these transactions is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the year/period in which such determination is made.

5. REVENUE

Camex Pte Group did not generate any turnover or revenue during the Relevant Periods.

6. SEGMENT INFORMATION

No segment information is presented as Camex Pte Group operates in one single business segment i.e. exploration and development of mineral resources, and financial information reported here are on the same basis as those used internally by the chief operating decision-maker, i.e. the directors of Camex Pte. Substantially all of Camex Pte Group's assets and liabilities are located in Mongolia and accordingly, no geographical information has been disclosed in the Financial Information.

7. EXCESS OVER THE COST OF BUSINESS COMBINATION

The excess over the cost of business combination amounting to US$69,290,000 arose from the acquisition of 54.5% equity interest in the subsidiary, Camex LLC, in 2007 as detailed in note 30(a).

8. FINANCE COSTS

	Period from 23 February 2007 (date of incorporation) to 31 December 2007	Year ended 31 December	
		2008	2009
	US$'000	*US$'000*	*US$'000*
Interest charges on:			
Bank loans wholly repayable within five years	50	–	–
Less: Interest capitalised in exploration and evaluation assets	(50)	–	–
	–	–	–

9. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(Loss) before income tax is arrived at after charging/(crediting):

	Period from 23 February 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	2009
	US$'000	US$'000	US$'000
Amortisation of interests in leasehold land	–	6	23
Amortisation of other intangible assets	1	1	1
Depreciation of property, plant and equipment	16	53	122
Less: Amounts capitalised in exploration and evaluation assets	(8)	(28)	(107)
Net depreciation of property, plant and equipment	8	25	15
Employee benefit expenses including directors' remuneration *(note)*	76	261	326
Interest income	(52)	(34)	(14)
Net exchanges loss	21	414	547
Write-off of project costs#	205	20	50
Loss on disposal of an exploration licence#	–	6	–
Loss on disposal of property, plant and equipment#	–	–	5
Operating lease charge in respect of land and buildings	59	140	109
Share-based payments *(note 31)*	–	–	156,800

 # included in other operating expenses

Note:

Details of the employee benefit expenses are as follows:

	Period from 23 February 2007 (date of incorporation) to 31 December 2007	Year ended 31 December 2008	2009
	US$'000	US$'000	US$'000
Salaries, allowances and benefits in kind	90	331	374
Contributions to retirement benefits scheme	17	36	29
	107	367	403
Less: Amounts capitalised in exploration and evaluation assets	(31)	(106)	(77)
	76	261	326

10. INCOME TAX EXPENSE

Subsidiaries incorporated in Mongolia are subject to Mongolian income tax which is calculated at the rate of 10% on the first MNT 3 billion of taxable income and 25% on the amounts in excess thereof.

No income tax has been provided by Camex Pte Group during the Relevant Periods as it did not derive any assessable income arising in Mongolia during the Relevant Periods. No Hong Kong profits tax or Singapore income tax has been provided as Camex Pte Group had no assessable profits arising in or derived from Hong Kong or Singapore.

Reconciliation between income tax expense and accounting profit/(loss) at applicable tax rates is as follows:

	Period from 23 February 2007 (date of incorporation) to 31 December 2007	Year ended 31 December	
		2008	2009
	US$'000	*US$'000*	*US$'000*
Profit/(Loss) before income tax	68,716	(1,147)	(158,076)
Tax calculated at the rates applicable to profits in the tax jurisdiction concerned	6,865	(137)	(26,800)
Tax effect of non-taxable income	(6,929)	–	–
Tax effect of non-deductible expenses	21	43	26,724
Tax effect of unused tax losses not recognised	–	1	8
Tax effect of unrecognised temporary differences	43	93	68
Income tax expense	–	–	–

11. DIVIDEND

No dividends was paid or proposed during the Relevant Periods.

12. CONSOLIDATED PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF CAMEX PTE

The consolidated profit/(loss) attributable to the owners of Camex Pte for the period from 23 February 2007 (date of incorporation of Camex Pte) to 31 December 2007 and the years ended 31 December 2008 and 2009 includes losses of approximately US$76,000, US$278,000 and US$157,033,000 respectively, which have been dealt with in the financial statements of Camex Pte.

13. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

Directors' emoluments

The aggregate amount of emoluments paid and payable to the directors of Camex Pte during the Relevant Periods are as follows:

	Fees	Salaries, allowances and benefits in kind	Retirement benefits contribution	Bonus	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Period from 23 February 2007 (date of incorporation) to 31 December 2007					
Mr. Tan Joo Thye #	–	–	–	–	–
Mr. Ho Wui Mee, Marian #	–	–	–	–	–
Mr. Lim Siong, Dennis	–	12	1	–	13
Mr. Tan Kah Hock	–	–	–	–	–
Mr. Yeo Cheow Tong ^	–	–	–	–	–
Mr. Tan Kah Ho	–	–	–	–	–
Mr. Batsukh Yadamsuren	–	6	1	–	7
	–	18	2	–	20
Year ended 31 December 2008					
Mr. Lim Siong, Dennis	–	49	6	–	55
Mr. Tan Kah Hock	–	–	–	–	–
Mr. Tan Kah Ho	–	–	–	–	–
Mr. Batsukh Yadamsuren	–	20	2	–	22
	–	69	8	–	77
Year ended 31 December 2009					
Mr. Lim Siong, Dennis	–	168	5	–	173
Mr. Tan Kah Hock	–	–	–	–	–
Mr. Tan Kah Ho *	–	–	–	–	–
Mr. Batsukh Yadamsuren *	–	15	2	–	17
	–	183	7	–	190

\# *resigned on 24 February 2007*

^ *resigned on 1 November 2007*

* *resigned on 19 November 2009*

13. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

Directors' emoluments *(Continued)*

There were no arrangements under which a director waived or agreed to waive any remuneration during the Relevant Periods. No emoluments were paid to the directors of Camex Pte or employees of Camex Pte Group during the Relevant Periods as an inducement to join or upon joining Camex Pte Group or as compensation for loss of office.

Five highest paid individuals

The five individuals whose remunerations were the highest in Camex Pte Group during the period from 23 February 2007 (date of incorporation of Camex Pte) to 31 December 2007 and for the years ended 31 December 2008 and 2009 included two, two and two directors respectively, whose emoluments are reflected in the analysis presented above. The remunerations paid or payable to the remaining three individuals in each of the Relevant Periods are as follows:

	Period from 23 February 2007 (date of incorporation) to 31 December 2007	Year ended 31 December	
		2008	2009
	US$'000	*US$'000*	*US$'000*
Salaries, allowances and benefits in kind	28	64	90
Contributions to retirement benefits scheme	5	5	3
	33	69	93

The remunerations paid or payable to each of the remaining individuals fell within the salary band HK$1,000,000 (equivalent to approximately US$128,000) or below.

14. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share for the Relevant Periods is based on the following data:

	Period from 23 February 2007 (date of incorporation) to 31 December 2007	Year ended 31 December	
		2008	2009
Profit/(Loss) attributable to owners of Camex Pte (US$'000)	68,721	(1,129)	(158,069)
Weighted average number of shares in issue ('000)	2,795	10,000	10,000

Camex Pte Group has no potential dilutive shares in issue.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Period ended 31 December 2007						
On 23 February 2007 (date of incorporation)	–	–	–	–	–	–
Acquisition through business combination *(note 30(a))*	105	7	65	91	–	268
Additions	18	29	12	70	302	431
Disposal	–	–	(1)	–	–	(1)
Depreciation	(3)	(1)	(7)	(5)	–	(16)
Closing net carrying amount	120	35	69	156	302	682
At 31 December 2007						
Cost	123	36	76	161	302	698
Accumulated depreciation	(3)	(1)	(7)	(5)	–	(16)
Net carrying amount	120	35	69	156	302	682
Year ended 31 December 2008						
Opening net carrying amount	120	35	69	156	302	682
Exchange difference	(67)	(87)	(5)	(12)	–	(171)
Additions	–	672	18	15	820	1,525
Transfer	728	394	–	–	(1,122)	–
Depreciation	(8)	(11)	(17)	(17)	–	(53)
Closing net carrying amount	773	1,003	65	142	–	1,983
At 31 December 2008						
Cost	783	1,014	87	163	–	2,047
Accumulated depreciation	(10)	(11)	(22)	(21)	–	(64)
Net carrying amount	773	1,003	65	142	–	1,983
Year ended 31 December 2009						
Opening net carrying amount	773	1,003	65	142	–	1,983
Exchange difference	(90)	(118)	(8)	(16)	–	(232)
Additions	15	34	11	59	–	119
Disposal	–	–	–	(55)	–	(55)
Depreciation	(5)	(87)	(20)	(10)	–	(122)
Closing net carrying amount	693	832	48	120	–	1,693
At 31 December 2009						
Cost	707	929	92	143	–	1,871
Accumulated depreciation	(14)	(97)	(44)	(23)	–	(178)
Net carrying amount	693	832	48	120	–	1,693

Titles in respect of certain buildings located at certain mine sites in Mongolia have not yet been obtained as the construction of those buildings has not yet been completed as at the date of each Relevant Periods.

The mine processing plant of Camex Pte Group has not yet commenced production during the Relevant Periods and accordingly, depreciation for those items of property, plant and equipments which form part of the mine processing plant has not yet been provided.

16. INTERESTS IN LEASEHOLD LAND

Interests in leasehold land represent prepaid operating lease payments for certain land in Mongolia and the movement in their net carrying amounts are analysed as follows:

	Period from 23 February 2007 (date of incorporation) to 31 December 2007	Year ended 31 December	
		2008	2009
	US$'000	*US$'000*	*US$'000*
Opening carrying amount	–	10	134
Exchange difference	–	(12)	(16)
Acquisition through business combination *(note 30(a))*	10	–	–
Additions	–	142	–
Amortisation	–	(6)	(23)
Closing carrying amount	10	134	95

The analysis of the net carrying amounts of the leasehold land based on lease period is as follows:

	As at 31 December		
	2007	2008	2009
	US$'000	*US$'000*	*US$'000*
Outside Hong Kong, held on:			
Lease between 10 to 50 years	10	8	7
Lease less than 10 years	–	126	88
	10	134	95

17. EXPLORATION AND EVALUATION ASSETS

	Exploration and mining rights	Others	Total
	US$'000	*US$'000*	*US$'000*
	(note (a))	*(note (d))*	*(note (e))*
On 23 February 2007 (date of incorporation)	–	–	–
Acquisition through business combination *(note (b))*	219,357	1,466	220,823
Additions	18	796	814
At 31 December 2007	219,375	2,262	221,637
Exchange difference	(16,887)	(242)	(17,129)
Additions *(note (c))*	165	847	1,012
Disposal *(note (c))*	(6)	–	(6)
At 31 December 2008	202,647	2,867	205,514
Exchange difference	(23,654)	(333)	(23,987)
Additions	72	325	397
At 31 December 2009	179,065	2,859	181,924

Notes:

(a) The balance represents the cost of obtaining/acquiring exploration and mining rights to certain area in Mongolia with gold, copper and coal deposit. Pursuant to the Mineral Law of Mongolia which was adopted in 2006 (the "2006 Mineral Law"), exploration licence is granted for an initial period of 3 years and holder of an exploration licence may apply for an extension of such licence for two successive periods of 3 years each. Mining licence is granted for an initial period of 30 years and holder of a mining licence may apply for an extension of such licence for two successive periods of 20 years each.

(b) On 5 June 2007, Camex Pte acquired 54.5% equity interest in Camex LLC *(note 30 (a))* and on that date, Camex LLC Group held the following licences:

– two exploration licences, which were first issued in 2004 and re-registered under the 2006 Mineral Law, in respect of certain area in Gobi-Altai, Mongolia covering 44,027 hectares (revised to 44,016 hectares as at the date of this report) in aggregate with gold and copper deposit. The two exploration licences were transferred from the joint venture partner of Kores in February 2007 pursuant to the founding agreement signed on 22 August 2006;

– two exploration licences, which were first issued in 2004 and re-registered under the 2006 Mineral Law, in respect of certain area in Zavkhan, Mongolia covering 15,517 hectares in aggregate with gold and copper deposit; and

– one mining licence (first issued in 1995) and three exploration licences in respect of a coal mine located in Tuv Province of Mongolia covering an area of 1,114 hectares in aggregate. Two of the three exploration licences were subsequently converted into mining licences in April 2008 and the remaining exploration licence was subsequently converted into mining licence in January 2010. The licences were obtained through the acquisition of TNE by Camex LLC in February 2007.

(c) In January 2008, Camex LLC was granted an exploration licence in respect of a coal mine in Dundgobi, Mongolia. The licence was subsequently sub-divided into four exploration licences and one of the four exploration licences was disposed of. The remaining three exploration licences cover an area of 14,087 hectares in aggregate.

(d) Others mainly comprise geological and geophysical costs, costs incurred for drilling, trenching and excavation works, costs incurred for sampling and laboratory works, costs incurred for evaluation such as environment assessment and feasibility study, as well as depreciation and labour costs directly attributable to the exploration activities.

(e) The amounts of exploration and evaluation assets as at 31 December 2007, 2008 and 2009 represent active exploration and mining projects. Based on the assessment of the directors, there are no indications of impairment regarding the respective projects as at the end of each Relevant Periods.

18. OTHER INTANGIBLE ASSETS

Other intangible assets represent software acquired by Camex Pte Group. The movements during the Relevant Periods comprise amortisation charge which is included in "administrative expenses" in the consolidated statements of comprehensive income and in particular for the year ended 31 December 2008, purchase of other intangible assets of US$3,000.

19. PREPAYMENTS FOR EXPLORATION, EVALUATION AND MINE DEVELOPMENT ACTIVITIES

	As at 31 December		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Prepaid licence fees *(note (a))*	309	372	333
Others *(note (b))*	100	116	103
	409	488	436

Notes:

(a) Prepaid licence fees of Camex Pte Group represent payments to a supplier regarding the transfer of technical know-how which is to be used in a processing plant for smokeless fuel product. As at 31 December 2009, certain conditions as set forth in the licence agreement signed with the supplier have not yet been fulfilled and accordingly, the transfer of the technical know-how is not yet completed.

(b) Others mainly represent prepayments for machinery and equipments.

20. INVESTMENTS IN SUBSIDIARIES

	As at 31 December		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Unlisted shares, at costs	64,819	64,819	64,819

21. AMOUNT DUE FROM A SUBSIDIARY

The amount due is unsecured, interest-free and has no fixed terms of repayment. The directors of Camex Pte consider the carrying amount of this balance approximates its fair value due to short maturity period.

22. AMOUNT DUE FROM A DIRECTOR

The balance represents amount due from Mr. Dennis Lim, a director of Camex Pte, which is unsecured, interest-free and repayable on demand. The maximum outstanding amount due from him during the period from 23 February 2007 (date of incorporation of Camex Pte) to 31 December 2007 and the years ended 31 December 2008 and 2009 was approximately US$2,961,000, US$2,996,000 and US$2,996,000 respectively. The directors of Camex Pte consider that the carrying amount of this balance approximates its fair value due to short maturity period.

23. AMOUNTS DUE FROM MINORITY SHAREHOLDERS

The balances comprise (i) an amount of US$3,000 due from the joint venture partner of Kores as at 31 December 2007, 2008 and 2009 which are unsecured, interest-free and repayable on demand; and (ii) an amount of US$118,000 due from the minority shareholder of TNE as at 31 December 2008 which was secured by the minority shareholder's 20% equity interest in TNE and repayable on 26 August 2008. The amount due from the minority shareholder of TNE was settled in 2009 by offsetting part of the consideration for acquiring the 20% equity interest in TNE by Camex LLC as detailed in note 30(c).

The directors of Camex Pte consider that the fair values of these balances are not materially different from their carrying amounts due to short maturity period.

24. CASH AND CASH EQUIVALENTS

Camex Pte Group

	As at 31 December		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Cash at banks and in hand	1,307	206	31
Time deposit	1,947	–	–
	3,254	206	31

Camex Pte

	As at 31 December		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Cash at banks and in hand	134	12	20
Time deposit	1,947	–	–
	2,081	12	20

Cash at banks earns interest at the floating rates based on the daily bank deposit rates. The time deposit has maturity period of seven days and is interest – bearing at 4.18% per annum.

25. AMOUNT DUE TO A DIRECTOR / A MINORITY SHAREHOLDER

The amount due is unsecured, interest-free and repayable on demand. The directors of Camex Pte consider that the carrying amount of this balance approximates its fair value due to short maturity period.

26. GOVERNMENT SUBSIDIES

During the years ended 31 December 2007 and 2008, TNE received government subsidies amounted to MNT 1,000,000,000 (equivalent to approximately US$855,000) and MNT 186,000,000 (equivalent to approximately US$147,000) respectively. These subsidies were granted by the government of Mongolia to finance TNE in establishing a processing plant for smokeless fuel product. Since the investment cost for constructing the processing plant as well as the related government subsidies are still subject to negotiation with government, the received subsidies were recognised as liabilities as at the end of each Relevant Periods. Further details about the processing plant are included in note 33(i).

27. DEFERRED TAX LIABILITIES

The movement in the carrying amounts of deferred tax liabilities of Camex Pte Group during the Relevant Periods is as follows:

	Exploration and evaluation assets *US$'000*
On 23 February 2007 (date of incorporation)	–
Acquisition of a subsidiary *(note 30(a))*	54,768
As at 31 December 2007	54,768
Exchange difference	(4,213)
As at 31 December 2008	50,555
Exchange difference	(5,901)
As at 31 December 2009	44,654

Camex Pte Group has reported tax losses of approximately US$1,000, US$4,000 and US$50,000 as at 31 December 2007, 2008 and 2009 respectively. Deferred tax assets are not recognised in respect of these tax losses due to the unpredictability of future profit streams.

According to the Economic Entity Tax Law of Mongolia, effective from 1 January 2010, operating losses accumulated by mining companies can be carried forward and deducted from taxable income for a period from four to eight years following the year in which the loss was incurred, the determination of the carry-forward period applicable to any particular mining company to be determined by the government of Mongolia taking into consideration the investment made by such company in its mining operations. According to the relevant tax law of Singapore, tax losses arising in Singapore may be forwarded indefinitely.

28. SHARE CAPITAL

	Note	Number of shares	Carrying amount US$'000
Issued and fully paid:			
On 23 February 2007 (date of incorporation)	*(a)*	2	–
Capital injection from shareholders	*(b)*	5,449,998	10,000
Shares issued in connection to acquisition of minority interests	*(c)*	4,550,000	63,064
As at 31 December 2007, 2008 and 2009		10,000,000	73,064

Notes:

(a) Camex Pte was incorporated in Singapore on 23 February 2007 with an issued share capital of US$2 comprising 2 shares of US$1 each.

(b) During June and July 2007, capital amounting to US$10,000,000 in aggregate was injected by Mr. Tan Kah Hock, Mr. Lim Siong Dennis and Mr. Yeo Cheow Tong (the "Three Individuals"). In return for this capital injection, the Three Individuals were issued shares of Camex Pte of 3,549,999, 1,499,999 and 400,000 respectively.

(c) As the consideration for acquiring the remaining 45.5% equity interest in Camex LLC, Camex Pte issued 4,550,000 new shares with fair value of US$63,064,000 to the then minority shareholders of Camex LLC as further detailed in note 30(b).

There were no movements in the share capital of Camex Pte during the years ended 31 December 2008 and 2009.

29. RESERVES

Camex Pte Group

Details of the movements in the reserves of Camex Pte Group during the Relevant Periods are set out in the consolidated statements of changes in equity. The nature of certain reserves of Camex Pte Group is as follows:

Capital contribution

Capital contribution arose from obtaining goods or services by granting of the equity instruments of holding company as detailed in note 31.

29. RESERVES *(Continued)*

Capital reserve

Capital reserve as at 31 December 2007, 2008 and 2009 was resulted from the acquisition of additional interests in the subsidiaries, TNE and Camex LLC, which represents the difference between the fair value of the considerations given and the carrying amount of the net assets attributable to the additional interests in TNE and Camex LLC acquired from the holders of the minority interests.

Camex Pte

The movements in the reserves of Camex Pte during the Relevant Periods were as follows:

	Capital contribution	**Accumulated loss**	**Total**
	US$'000	*US$'000*	*US$'000*
Loss for the period	–	(76)	(76)
At 31 December 2007	–	(76)	(76)
Loss for the year	–	(278)	(278)
At 31 December 2008	–	(354)	(354)
Recognition of share-based payment *(note 31)*	156,800	–	156,800
Loss for the year	–	(157,033)	(157,033)
At 31 December 2009	156,800	(157,387)	(587)

30. BUSINESS COMBINATIONS

(a) Acquisition of 54.5% equity interest in Camex LLC

On 5 June 2007, Camex Pte acquired 54.5% equity interest in Camex LLC in the name of the Three Individuals as defined in note 28 at the cash consideration of US$1,755,000 who were holding the shares of Camex LLC on behalf of Camex Pte. Those acquired shares in Camex LLC were subsequently transferred back to Camex Pte by the Three Individuals on 26 July 2007. The acquisition is accounted for using purchase method. The fair values of the identifiable assets and liabilities of Camex LLC and its subsidiaries (collectively referred to as the "Camex LLC Group") on the date of acquisition are as follows:

	Carrying amount and fair value on the date of acquisition
	US$'000
Property, plant and equipment	268
Interests in leasehold land	10
Exploration and evaluation assets	220,823
Other intangible assets	4
Receivables, prepayment and deposits	167
Cash and bank balances	195
Amount due to a director	(1,841)
Other payables and accruals	(1,079)
Government subsidies	(427)
Deferred tax liabilities	(54,768)
Net assets	163,352
Minority interests	(32,995)
	130,357
Net assets acquired — 54.5%	71,045
Excess over the cost of business combination *(note (i))*	(69,290)
Total consideration	1,755
Satisfied by:	
Cash	1,755
Net cash inflow/outflow in respect of the acquisition:	
Bank balances and cash acquired	195
Cash consideration	(1,755)
Net cash outflow	(1,560)

Notes:

(i) The excess of Camex Pte's interest in the fair value of the identifiable assets and liabilities of Camex LLC Group on the date of acquisition over the cost of the acquisition is a bargain purchase.

(ii) Since Camex LLC Group has not yet generated any revenue and its net result for the year ended 31 December 2007 is insignificant, it did not have significant contribution to Camex Pte Group's revenue and result for the period from the date of acquisition to 31 December 2007 or for the period from the date of incorporation of Camex Pte to 31 December 2007 had the acquisition been taken place on 23 February 2007.

30. BUSINESS COMBINATIONS *(Continued)*

(b) Acquisition of remaining 45.5% equity interest in Camex LLC

On 26 July 2007, Camex Pte acquired the remaining 45.5% equity interest in Camex LLC by way of issuing 4,550,000 new shares of Camex Pte to the minority shareholders of Camex LLC. The financial position of Camex LLC Group on the date of acquiring the remaining 45.5% equity interest in Camex LLC by Camex Pte is as follows:

	US$'000
Net assets acquired	59,312
Difference between the share of net assets acquired and the consideration *	3,752
Total consideration	63,064
Satisfied by:	
Shares issued by Camex Pte *(note)*	63,064

* dealt with in capital reserve

Note:

The fair value of the shares issued by Camex Pte is determined with reference to the fair value of the equity interest in Camex LLC and the cash contribution from the Three Individuals as mentioned in note 28(b) which were the major assets of Camex Pte Group on the date of the acquisition.

30. BUSINESS COMBINATIONS *(Continued)*

(c) Acquisition of remaining 20% equity interest in TNE

On 27 November 2009, Camex LLC acquired the remaining 20% equity interest in TNE at cash consideration of approximately MNT280,091,000 which was subsequently amended to MNT407,443,000 (equivalent to approximately US$284,000) pursuant to the supplementary agreement signed on 1 December 2009. The financial position of TNE on the date of acquiring the remaining 20% equity interest in TNE by Camex LLC is as follows:

	US$'000
Net assets acquired	26,728
Difference between the share of net assets acquired and the consideration *	(26,444)
Total consideration	284
Satisfied by:	
Cash *(note)*	284

* dealt with in capital reserve

Note:

Part of the consideration for the acquisition is offset against the amount due by the holder of the 20% equity interest in TNE to Camex Pte Group amounting US$118,000.

As at 31 December 2009, part of the consideration amounting to MNT 127,352,000 (equivalent to approximately US$89,000) has not been settled. Accordingly, net cash outflow in respect of the acquisition during the year ended 31 December 2009 amounted to MNT 280,091,000 (equivalent to approximately US$195,000).

31. SHARE-BASED PAYMENT

Pursuant to a restructuring (the "Restructuring") taken place on 28 November 2009, an independent third party (the "Party") obtained 49% effective interest in the share capital of the Target Company in consideration for the transfer of the entire issued share capital of Grand Title by the Party to Camex Pte (the "Arrangement"). The Arrangement is accounted for as a share-based payment.

On the date of the Restructuring, Grand Title had net liabilities of less than US$1,000. Grand Title has not carried out any business activities except for signing of a memorandum (the "Memorandum") with the Ministry of Road, Transportation, Construction and Urban Development of Mongolia on 15 April 2009 in respect of the implementation in Mongolia of construction, housing and infrastructure development projects with the provision of mining concessions. In the opinion of the directors of Camex Pte, the proposal under the Memorandum, if duly executed, would bring in significant economic benefits to Camex Pte Group.

Grand Title had nominal net liabilities and no business operations at the date of acquisition. Accordingly, the directors are of the opinion that the acquisition of Grand Title is a purchase of net liabilities and does not constitute a business combination for accounting purposes and consequently, no goodwill is recognised.

The Memorandum does not meet the definition of an asset under HKFRS as the expected future economic benefits arising are not yet controlled by Grand Title. The difference between the fair value of the equity interests granted of US$156,800,000 and the fair value of the identifiable goods and services received of less than US$1,000 in deficit is recognised as unidentifiable goods or services received in accordance with HK (IFRIC)-Int 8 and is charged to the consolidated statement of comprehensive income for the year ended 31 December 2009 under administrative expenses. The corresponding amount is credited to equity as a capital contribution as the party who granted the equity interests was the immediate holding company of Camex Pte.

32. OPERATING LEASE COMMITMENTS

At each reporting date, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings of Camex Pte Group and Camex Pte are as follows:

	Camex Pte Group		
	As at 31 December		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Within one year	104	60	63
In the second to fifth years, inclusive	50	–	24
	154	60	87

	Camex Pte		
	As at 31 December		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Within one year	100	50	49
In the second to fifth years, inclusive	50	–	24
	150	50	73

Camex Pte Group leases a number of properties under operating leases which run for an initial period of 1 to 2 years. None of these leases include contingent rentals.

33. CAPITAL COMMITMENTS

Camex Pte Group had outstanding capital commitments as follows:

	As at 31 December		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Purchases of property, plant and equipment *(note (i))*	4,686	3,571	3,140
Acquisition of technical know-how	471	347	345
Other commitments related to exploration and evaluation activities	64	70	102
	5,221	3,988	3,587

33. CAPITAL COMMITMENTS *(Continued)*

Notes:

(i) Pursuant to the tender submitted to the relevant government authority of Mongolia dated 18 August 2006 which was accepted by the government authority on 11 October 2006, TNE has to establish a processing plant for the production of smokeless fuel product at an estimated investment cost of MNT 5,835 million (equivalent to approximately US$5 million). In connection to this, TNE received subsidies from the government amounted to MNT 1,186 million (equivalent to approximately US$936,000) in aggregate up to 31 December 2008. The tender refers to a number of performance targets including the commencement of operation and production of the processing plant in March 2008, the production of a specified quantity of smokeless fuel per year and the capital injection of MNT 5,835 million (equivalent to approximately US$5 million) by March 2008. However, the performance targets are not yet achieved up to the date of this report.

Based on (i) a contract accomplishment notice dated 8 October 2008 was signed by TNE and the government authority confirming that the subsidies granted to TNE have been used for the construction of the processing plant and that the government has agreed to provide additional funding for the project; (ii) management has been actively communicating with the government authority regarding revising the existing investment plan as well as seeking for additional subsidies; and (iii) the legal advisors of Camex LLC Group, having considered the tender, the contract accomplishment notice and the circumstance arising, opine that it is very unlikely for the government to hold TNE responsible for the performance targets, the directors have assessed that the fact that the performance targets as set forth in the tender are not yet achieved do not result in the significant financial impact to Camex Pte Group. The outstanding commitment with reference to the existing investment plan amounted to approximately MNT 5,482 million (equivalent to approximately US$4,686,000), MNT 4,526 million (equivalent to approximately US$3,571,000), and MNT 4,505 million (equivalent to approximately US$3,140,000) respectively as at 31 December 2007, 2008 and 2009 is disclosed herein. The entire amount of the government subsidies received were accounted for as liabilities until TNE and the government authority have come into a conclusion on the revised investment plan and the additional subsidies for the processing plan.

(ii) Apart from the above, pursuant to the founding agreement signed by Camex LLC in respect of the subsidiary, Kores, on 22 August 2006, Camex LLC is required to contribute an amount of US$800,000 in respect of the exploration project of Kores by 31 December 2007. Otherwise, the two exploration licences transferred by the joint venture partner to Kores as mentioned in note 17(b) will be returned to the joint venture partner. However, the amount of contribution made by Camex LLC to Kores as at 31 December 2007, 2008 and 2009 amounted to approximately US$510,000, US$581,000 and US$588,000 respectively, and Camex LLC's outstanding commitment in respect of the investment in Kores as at 31 December 2007, 2008 and 2009 was approximately US$290,000 (approximately MNT 340 million), US$219,000 (approximately MNT 278 million) and US$212,000 (approximately MNT 304 million) respectively. Camex LLC received a letter from the joint venture partner dated 14 January 2010 confirming that it is committed to give continuous support to Kores and the exploration project of Kores and it will not request for return of the exploration licences.

34. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Save as disclosed elsewhere in this Financial Information, the following transactions were carried out by Camex Pte Group with related parties:

	Period from 23 February 2007 (date of incorporation) to 31 December 2007	**Year ended 31 December**	
		2008	**2009**
	US$'000	*US$'000*	*US$'000*
Management fee received from a related company *(note (i))*	–	24	8
Interest income received from a related company *(note (i))*	–	1	–
Management fee paid to a related company *(note (i))*	4	2	–
Rental for office premises paid to a related company *(note (i))*	52	114	84
Acquisition of exploration licences from a shareholder	235	–	–

Notes:

(i) These companies are related to Camex Pte Group by way of common beneficial owners.

(ii) These transactions were entered into in the ordinary course of business with reference to the terms negotiated between Camex Pte Group and the related parties.

(b) Key management personnel compensation

	Period from 23 February 2007 (date of incorporation) to 31 December 2007	**Year ended 31 December**	
		2008	**2009**
	US$'000	*US$'000*	*US$'000*
Short-term employee benefits	46	133	273
Post employment benefits	7	13	10
	53	146	283

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

Camex Pte Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and its investment activities. The financial risks include market risk (including currency risk and interest risk), credit risk and liquidity risk. Camex Pte Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. Risk management is carried out by key management under the policies approved by the board of directors. Camex Pte Group does not have written risk management policies. However, the directors and senior management of Camex Pte Group meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks.

(a) Categories of financial assets and liabilities

Financial assets

	Camex Pte Group As 31 December		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Loans and receivables			
Amount due from a director	2,961	2,996	2,956
Amounts due from minority shareholders	3	121	3
Other receivables	40	51	24
Cash and cash equivalents	3,254	206	31
	6,258	3,374	3,014

	Camex Pte As 31 December		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Loans and receivables			
Amount due from a subsidiary	3,100	4,873	4,671
Amount due from a director	2,961	2,996	2,956
Cash and cash equivalents	2,081	12	20
	8,142	7,881	7,647

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

(a) Categories of financial assets and liabilities *(Continued)*

Financial liabilities

	Camex Pte Group		
	As 31 December		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Financial liabilities measured at amortised cost:			
Amount due a director	2,125	2,417	3,078
Amount due to a minority shareholder	63	26	–
Other payables and accruals	223	168	219
	2,411	2,611	3,297

	Camex Pte		
	As 31 December		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Financial liabilities at amortised cost			
Other payables and accruals	12	3	3

(b) Financial risk management

Market risk – Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Camex Pte Group's exposures to currency risk mainly arise from the purchases of property, plant and equipment and expenditures on exploration and evaluation activities by certain Mongolian subsidiaries with functional currency of MNT while part of those purchases are denominated in US$. In addition, certain current accounts of those Mongolian subsidiaries with related parties are denominated in US$. Camex Pte Group has not entered into any derivate instruments to hedge the foreign exchange exposures, however, the management continuously monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

35. **FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS** *(Continued)*

(b) **Financial risk management** *(Continued)*

Market risk – Foreign currency risk *(Continued)*

Financial assets and liabilities of those Mongolian subsidiaries denominated in US$ are summarised as follows:

	Camex Pte Group		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
Amounts due from related parties	3	3	3
Other receivables	22	16	20
Cash and cash equivalents	739	26	9
Amounts due to related parties	(5,198)	(7,239)	(7,757)
Other payables and accruals	(180)	(38)	(38)
Net exposure	(4,614)	(7,232)	(7,763)

The following table illustrates the sensitivity of the Camex Pte Group's profit/(loss) after tax during the Relevant Periods in regards to a 5%, 5% and 10% depreciation in MNT against US$ as at 31 December 2007, 2008 and 2009 respectively. These rates are the rates used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

The sensitivity analysis of Camex Pte Group's exposure to foreign currency risk at the reporting date has been determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year.

	Camex Pte Group		
	2007	**2008**	**2009**
	US$'000	*US$'000*	*US$'000*
	– 5%	– 5%	– 10%
Decrease in profit/Increase in loss after tax and decrease in retained profit/increase in accumulated losses	231	362	776

35. **FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS** *(Continued)*

(b) **Financial risk management** *(Continued)*

Market risk – Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Camex Pte Group does not have significant exposure to interest rate risk as it has no significant interest-bearing assets and liabilities and Camex Pte Group's income, expenses and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instruments and cause as a financial loss to the Camex Pte Group. Camex Pte Group's and Camex Pte's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statements of financial position. In the option of the directors, Camex Pte Group's exposure to credit risk is insignificant.

In order to minimise the credit risk, the management compiles the credit and risk management policies, to approve credit limits and to determine any debt recovery action on those delinquent receivables. In addition, Camex Pte Group reviews the recoverable amount for each individual receivable at each reporting dates to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the board of director considers that Camex Pte Group's credit risk is effectively controlled and significantly reduced. Credit risk on cash at banks is mitigated as cash is deposited in banks of high credit rating.

None of the Camex Pte Group's and Camex Pte's financial assets are secured by collateral or other credit enhancements except for those disclosed in note 23.

The credit policy has been followed by Camex Pte Group during the Relevant Periods and is considered to have been effective in limiting Camex Pte Group's and Camex Pte's exposure to credit risk to a decisive level.

Liquidity risk

Liquidity risk relates to the risk that Camex Pte Group will not be able to meet its obligations associated with its financial liabilities. Camex Pte Group is exposed to liquidity risk in respect of settlement of its financing obligations, and also in respect of its cash flow management. Camex Pte Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

Camex Pte Group had net current liabilities of US$270,000 as at 31 December 2009. Camex Pte Group is able to maintain its liquidity by obtaining continuing financial support from the shareholders. The liquidity policies have been followed by Camex Pte Group during the Relevant Periods and are considered to have been effective in managing liquidity risks.

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Liquidity risk *(Continued)*

The maturity profile of the Camex Pte Group's and Camex Pte's financial liabilities as at each of the reporting dates, based on the contracted undiscounted payments, was as follows:

Camex Pte Group

	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand
	US$'000	*US$'000*	*US$'000*
At 31 December 2007			
Amount due to a director	2,125	2,125	2,125
Amount due to a minority shareholder	63	63	63
Other payables and accruals	223	223	223
	2,411	2,411	2,411
At 31 December 2008			
Amount due to a director	2,417	2,417	2,417
Amounts due to minority shareholders	26	26	26
Other payables and accruals	168	168	168
	2,611	2,611	2,611
At 31 December 2009			
Amount due to a director	3,078	3,078	3,078
Other payables and accruals	219	219	219
	3,297	3,297	3,297

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Liquidity risk *(Continued)*

Camex Pte

	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand
	US$'000	*US$'000*	*US$'000*
At 31 December 2007			
Other payables and accruals	12	12	12
At 31 December 2008			
Other payables and accruals	3	3	3
At 31 December 2009			
Other payables and accruals	3	3	3

(c) Fair value estimation

The fair values of Camex Pte Group's and Camex Pte's financial asset and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

36. CAPITAL MANAGEMENT

Camex Pte Group's primary objectives in managing capital include:

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

(ii) To support Camex Pte Group's stability and growth; and

(iii) To provide capital for the purpose of strengthening Camex Pte Group's risk management capability.

Camex Pte Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of Camex Pte Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Camex Pte Group currently does not adopt any formal dividend policy. Management regards total equity and the continuing financial support from shareholders as capital.

37. SUBSEQUENT EVENTS

No significant events have taken place within Camex Pte Group subsequent to 31 December 2009.

38. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Camex Pte or any of its subsidiaries in respect of any period subsequent to 31 December 2009.

Yours faithfully,

Grant Thornton
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

2.2 MANAGEMENT DISCUSSION AND ANALYSIS OF CAMEX PTE GROUP

For the period from 23 February 2007 (date of incorporation) to 31 December 2007

Results and financial position

Camex Pte Group mainly operates in Mongolia and engages in the business of mining and exploration of mineral resources. Camex Pte Group has not commenced mining operation and accordingly, it did not generate any revenue or incur costs for sales during the period ended 31 December 2007.

For the period ended 31 December 2007, Camex Pte Group incurred other operating expenses in the amount of approximately USD205,000 which represented the cost of steel melting project being written off.

Administrative expenses of Camex Pte Group for the period ended 31 December 2007 amounted to approximately USD421,000. It mainly include staff costs of about USD76,000, property rental of approximately USD59,000, net depreciation charges of about USD8,000, travelling expenses of about USD45,000, net exchange loss of about USD21,000, legal and professional fees of approximately USD119,000 and other general expenses of about USD93,000 which mainly comprised electricity, printing and telephone charges.

Camex Pte Group recorded a profit of approximately US$68,716,000 for the period ended 31 December 2007 which is principally contributed by the negative goodwill in capital nature, arising from the acquisition of 54.5% equity interest in Camex LLC. amounting to approximately USD69,290,000. No income tax has been provided as Camex Pte Group did not derive any assessable profits arising in Singapore or other countries during the period ended 31 December 2007. As at 31 December 2007, the audited net assets was approximately US$171 million (equivalent to approximately HK$1,325.3 million).

Capital structure, liquidity, financial resources

As at 31 December 2007, Camex Pte Group held cash and bank balances of approximately USD3.3 million and the current ratio was about 2.62.

Camex Pte Group was solely financed by the proceed from issue of shares of USD10 million during the period ended 31 December 2007.

The gearing ratio (defined as total bank borrowings over equity) of Camex Pte Group was nil as at 31 December 2007.

Treasury policies, exchange risk and hedging

Except for purchases of property, plant and equipment and expenditures on exploration and evaluation activities by certain subsidiaries with functional currency of MNT while part of those purchases are denominated in United Stated Dollars, Camex Pte Group did not have any exposure to fluctuations in exchange rates or any related hedges as at 31 December 2007. Camex Pte Group also adopted a conservative treasury policy to minimize the foreign exchange risks.

Charges on assets

As at 31 December 2007, Camex Pte Group had no pledged assets.

Contingent liabilities

As at 31 December 2007, Camex Pte Group did not have any significant contingent liabilities.

Significant investments, material acquisitions and disposals

Save for the acquisition of 100% equity interest in Camex LLC by way of cash consideration of approximately USD1.755 million for 54.5% equity interest in June 2007 and by way of shares swap for the remaining 45.5% equity interest in July 2007, Camex Pte Group did not undertake any significant investment or have any material acquisition or disposal of any subsidiary, associate or joint venture during the period ended 31 December 2007.

Employees and remuneration policy

Camex Pte Group has an average of 24 employees during the period ended 31 December 2007 and the total remuneration paid was approximately USD107,000. Employee remuneration packages were maintained at competitive levels.

In order to retain and attract high caliber executives and employees, Camex Pte Group rewards its employees according to prevailing market practices, employees' individual experience and performance are reviewed regularly. In addition to the provision of annual bonus, retirement benefit and medical insurance coverage and discretionary bonuses are also available to employees based on their performance.

Future plans and prospects

Camex Pte Group would continue to allocate resources and investments for further development of the natural resources and mining business.

For the year ended 31 December 2008

Results and financial position

Camex Pte Group mainly operates in Mongolia and engages in the business of mining and exploration of mineral resources. Camex Pte Group has not commenced mining operation and accordingly, it did not generate any revenue or incur costs for sales during the year ended 31 December 2008.

Administrative expenses of Camex Pte Group for the year ended 31 December 2008 amounted to approximately USD1,180,000. It mainly include staff costs of about USD261,000, property rental of approximately USD140,000, net depreciation charges of about USD25,000, travelling expenses of about USD62,000, net exchange loss of about USD414,000, legal and professional fees of approximately USD128,000 and other general expenses of about USD150,000 which mainly comprised electricity, printing and telephone charges.

Administrative expenses increased by 180.3% to approximately USD1,180,000 in 2008 from USD421,000 in 2007. The increment is primarily attributable to i) increased staff costs due to the recruitment of senior management of Camex LLC Group in early 2008 to cope with the expansion in operations, and ii) increased rental expense due to provision of staff accommodation to those senior management. Camex Pte Group recorded a loss of approximately US$1,147,000 for the year ended 31 December 2008. No income tax has been provided as Camex Pte Group did not derive any assessable profits arising in Singapore or other countries during the year ended 31 December 2008. Camex Pte Group continued to maintain a healthy financial position with net assets of approximately USD157 million (equivalent to approximately HK$1,216.8 million).

Capital structure, liquidity, financial resources

As at 31 December 2008, Camex Pte Group held cash and bank balances of approximately USD206,000 and the current ratio was about 1.3.

Camex Pte Group was financed by internal fund during the year ended 31 December 2008.

The gearing ratio (defined as total bank borrowings over equity) of Camex Pte Group was nil as at 31 December 2008.

Treasury policies, exchange risk and hedging

Except for purchases of property, plant and equipment and expenditures on exploration and evaluation activities by certain subsidiaries with functional currency of MNT while part of those purchases are denominated in United Stated Dollars, Camex Pte Group did not have any exposure to fluctuations in exchange rates or any related hedges as at 31 December 2008. Camex Pte Group also adopted a conservative treasury policy to minimize the foreign exchange risks.

Charges on assets

As at 31 December 2008, Camex Pte Group had no pledged assets.

Contingent liabilities

As at 31 December 2008, Camex Pte Group did not have any significant contingent liabilities.

Significant investments, material acquisitions and disposals

Other than the investment in 100% share capital of Camex LLC, Camex Pte Group did not undertake any significant investment or have any material acquisition or disposal of any subsidiary, associate or joint venture during the year ended 31 December 2008.

Employees and remuneration policy

Camex Pte Group has an average 35 employees during the year and the total remuneration paid was approximately USD367,000. Employee remuneration packages were maintained at competitive levels.

In order to retain and attract high caliber executives and employees, Camex Pte Group rewards its employees according to prevailing market practices, employees' individual experience and performance are reviewed regularly. In addition to the provision of annual bonus, retirement benefit and medical insurance coverage and discretionary bonuses are also available to employees based on their performance.

Future plans and prospects

Camex Pte Group would continue to allocate resources and investments for further development of the natural resources and mining business.

For the year ended 31 December 2009

Results and financial position

Camex Pte Group principally operates in Mongolia and engages in the business of mining and exploration of mineral resources. Camex Pte Group has not commenced mining operation and accordingly , it did not generate any revenue or incur costs for sales during the year ended 31 December 2009.

Administrative expenses of Camex Pte Group for the year ended 31 December 2009 amounted to approximately USD158,089,000. It mainly include staff costs of about USD326,000, property rental of approximately USD109,000, net depreciation charges of about USD15,000, travelling expenses of about USD51,000, net exchange loss of about USD547,000, share-based payment of approximately USD156,800,000, legal and professional fees of approximately USD78,000 and other general expenses of about USD163,000 which mainly comprised electricity, printing and telephone charges.

Administrative expenses increased by USD156,909,000 representing an increase of 13,297.4% in 2009 from 2008. The increment is primarily attributable to the increase in share-based payment of approximately USD156,800,000.

Camex Pte Group recorded a loss of approximately US$158,076,000 for the year ended 31 December 2009. No income tax has been provided as Camex Pte Group did not derive any assessable profits arising in Singapore or other countries during the year ended 31 December 2009. As at 31 December 2009, the audited net assets was approximately US$138 million (equivalent to approximately HK$1,069.5 million).

Capital structure, liquidity, financial resources

As at 31 December 2009, Camex Pte Group held cash and bank balances of approximately USD31,000 and the current ratio was about 0.92.

Camex Pte Group was financed by internal fund during the year ended 31 December 2009.

The gearing ratio (defined as total bank borrowings over equity) of Camex Pte Group was nil as at 31 December 2009.

Treasury policies, exchange risk and hedging

Except for purchases of property, plant and equipment and expenditures on exploration and evaluation activities by certain subsidiaries with functional currency of MNT while part of those purchases are denominated in United Stated Dollars, Camex Pte Group did not have any exposure to fluctuations in exchange rates or any related hedges as at 31 December 2009. Camex Pte Group also adopted a conservative treasury policy to minimize the foreign exchange risks.

Charges on assets

As at 31 December 2009, Camex Pte Group had no pledged assets.

Contingent liabilities

As at 31 December 2009, Camex Pte Group did not have any significant contingent liabilities.

Significant investments, material acquisitions and disposals

Save for the acquisition of 20% equity interest in TNE by Camex LLC in November 2009 at a consideration of approximately USD284,000 and 100% equity interest in Grand Title in November 2009, Camex Pte Group did not undertake any significant investment or have any material acquisition or disposal of subsidiary, associate or joint venture during the year ended 31 December 2009.

Employees and remuneration policy

Camex Pte Group has an average 32 employees during the year and the total remuneration paid was approximately USD403,000. Employee remuneration packages were maintained at competitive levels.

In order to retain and attract high caliber executives and employees, Camex Pte Group rewards its employees according to prevailing market practices, employees' individual experience and performance are reviewed regularly. In addition to the provision of annual bonus, retirement benefit and medical insurance coverage and discretionary bonuses are also available to employees based on their performance.

Future plans and prospects

Camex Pte Group will continue to allocate resources and investments for further development of the natural resources and mining business. Camex Pte Group plans to maximise the coal production and improve its production efficiency by utilising advanced mining equipments and technologies. In order to secure stable and long-term demand from customers, Camex Pte Group plans to enter into memorandum of understanding with potential customers for the supply of coal, balance the coal sales by pursuing both long-term supply contracts and sales in the spot market to maintain the flexibility in capturing market opportunities, diversify and improving the quality of products to meet the needs of its customers, and cultivate and maintain a stable and loyal customer base.

In addition, Camex Pte Group will continue to seek growth opportunities in coal mining business and plan to enter into gold and copper mining where the right opportunity arises.

3. FINANCIAL INFORMATION OF CAMEX LLC

3.1 ACCOUNTANTS' REPORT ON CAMEX LLC

The following is the text of a report from Grant Thornton, the independent reporting accountants, in respect of the accountants' report on Camex LLC prepared for the sole purpose of inclusion in this circular.

Grant Thornton
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Member of Grant Thornton International Ltd.

12 May 2010

The Board of Directors
Ming Hing Waterworks Holdings Limited
Unit 1809 – 12, Telford House
16 Wan Hoi Road
Kowloon Bay
Hong Kong

Dear Sirs,

We set out below our report on the financial information of Central Asia Mineral Exploration LLC ("Camex LLC") and its subsidiaries (collectively referred to as the "Camex LLC Group"), including the consolidated statements of financial position of Camex LLC Group and the statements of financial position of Camex LLC as at 31 December 2007, 2008 and 2009, the consolidated statements of comprehensive income, the consolidated statements of cash flow and the consolidated statements of changes in equity for each of the years ended 31 December 2007, 2008 and 2009 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory notes thereto (collectively referred to as the "Financial Information"), prepared for inclusion in the circular (the "Circular") dated 12 May 2010 issued by Ming Hing Waterworks Holdings Limited (the "Company") in connection with its proposed very substantial acquisition (the "Acquisition") of 100% equity interest in Well Delight Holdings Limited (the "Target Company"). Pursuant to a restructuring exercise taken place on 28 November 2009, Camex LLC has become an indirect wholly-owned subsidiary of the Target Company since that date.

Camex LLC was incorporated and registered in Mongolia on 17 August 2006 with limited liability. The principal activities of Camex LLC are mineral resource exploration in Mongolia and investment holding.

As at the date of this report, Camex LLC has beneficial interest in the following subsidiaries:

Name	Place and date of incorporation/ registration	Type of legal entity	Particulars of issued and paid up capital	Percentage of issued capital held directly by Camex LLC	Principal activity
Kores Mongolia LLC (“Kores”)	Mongolia, 23 November 2006	Limited liability company	Mongolian Tugrik (“MNT”) 11,640,000	70%	Mineral resources exploration in Mongolia
Tugrugnuuriin Energy LLC (“TNE”)	Mongolia, 23 February 2005	Limited liability company	10,000 shares of MNT1,000 each	100%	Mining business in Mongolia
Camex GT LLC (“Camex GT”)	Mongolia, 22 January 2007	Limited liability company	100 shares of MNT10,000 each	100%	Dormant

The percentage of issued capital of TNE held directly by Camex LLC as at 31 December 2007, 2008 and 2009 is 80%, 80% and 100% respectively. The percentage of the issued capital of Kores and Camex GT held by Camex LLC remains unchanged during the Relevant Periods.

All the companies within Camex LLC Group have adopted 31 December as their financial year end date. No audited financial statements have been prepared for Camex LLC or its subsidiaries since the respective date of their incorporation as there are no statutory audit requirements under the relevant rules and regulations in Mongolia.

Basis of preparation

The Financial Information have been prepared by the directors of Camex LLC based on the unaudited financial statements of Camex LLC Group (the “Underlying Financial Statements”) in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The Financial Information also complies with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Responsibility

The directors of Camex LLC are responsible for the preparation of the Financial Information which are free from material misstatement and give a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, and that judgements and estimates are made which are prudent and reasonable in the circumstances.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information and to report our opinion to you.

Basis of opinion

As a basis for forming an opinion on the Financial Information, we have carried out appropriate audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline – Prospectuses and the Reporting Accountant (Statement 3.340) issued by the HKICPA. No adjustments are considered necessary in respect of the Underlying Financial Statements for the preparation of the Financial Information.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the directors of Camex LLC in the preparation of the Financial Information, and of whether the accounting policies are appropriate to Camex LLC Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Camex LLC and Camex LLC Group as at 31 December 2007, 2008 and 2009 and of Camex LLC Group's results and cash flows for each of the Relevant Periods.

Emphasis of matter – Material uncertainty regarding the going concern assumption

Without qualifying our opinion, we draw your attention to note 2 to the Financial Information concerning the adoption of the going concern basis on which the Financial Information has been prepared. Camex LLC had capital deficiency of MNT1,027,212,000, MNT1,916,568,000 and MNT3,342,949,000 as at 31 December 2007, 2008 and 2009 respectively and Camex LLC Group had net current liabilities of MNT4,974,328,000, MNT9,007,855,000 and MNT11,373,275,000 as at 31 December 2007, 2008 and 2009 respectively. These conditions, along with other matters as disclosed in note 2 to the Financial Information, indicate the existence of a material uncertainty which may cast doubt about Camex LLC and Camex LLC Group's ability to continue as a going concern.

Consolidated Statements of Comprehensive Income

		Year ended 31 December		
	Notes	**2007**	**2008**	**2009**
		MNT'000	*MNT'000*	*MNT'000*
Revenue	*5*	–	–	–
Other income and gains		10,483	61,179	93,800
Administrative expenses		(481,126)	(1,061,485)	(1,515,054)
Other operating expenses		(538,639)	(30,534)	(78,675)
Operating loss		(1,009,282)	(1,030,840)	(1,499,929)
Excess over the cost of business combination	*7*	114,959,070	–	–
Finance costs	*8*	–	–	–
Profit/(Loss) before income tax	*9*	113,949,788	(1,030,840)	(1,499,929)
Income tax expense	*10*	–	–	–
Profit/(Loss) for the year		113,949,788	(1,030,840)	(1,499,929)
Other comprehensive income for the year		–	–	–
Total comprehensive income for the year		113,949,788	(1,030,840)	(1,499,929)
Profit/(Loss) / Total comprehensive income attributable to:				
Owners of Camex LLC	*12*	113,957,223	(1,009,813)	(1,490,233)
Minority interests		(7,435)	(21,027)	(9,696)
		113,949,788	(1,030,840)	(1,499,929)
Earnings/(Loss) per share attributable to owners of Camex LLC:	*14*			
Basic		11,396	(101)	(149)
Diluted		N/A	N/A	N/A

Consolidated Statements of Financial Position

	Notes	As at 31 December 2007 *MNT'000*	2008 *MNT'000*	2009 *MNT'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*15*	798,289	2,513,534	2,428,765
Interests in leasehold land	*16*	11,562	169,586	135,779
Exploration and evaluation assets	*17*	259,314,744	260,488,419	261,060,805
Other intangible assets	*18*	4,021	5,966	4,137
Prepayments for exploration, evaluation and mine development activities	*19*	478,983	618,781	624,848
		260,607,599	263,796,286	264,254,334
Current assets				
Amounts due from minority shareholders	*22*	3,492	153,492	3,492
Other receivables, prepayments and deposits		69,690	75,007	35,814
Cash and cash equivalents	*23*	1,371,961	246,513	16,071
		1,445,143	475,012	55,377
Current liabilities				
Amount due a director	*24*	2,486,389	3,062,492	4,415,702
Amount due to a minority shareholder	*24*	74,171	32,856	–
Amount due to immediate holding company	*26*	3,611,448	6,179,043	6,703,925
Other payables and accruals		247,463	208,476	309,025
		6,419,471	9,482,867	11,428,652
Net current liabilities		(4,974,328)	(9,007,855)	(11,373,275)
Total assets less current liabilities		255,633,271	254,788,431	252,881,059

Consolidated Statements of Financial Position *(Continued)*

	Notes	As at 31 December		
		2007	**2008**	**2009**
		MNT'000	*MNT'000*	*MNT'000*
Non-current liabilities				
Government subsidies	*25*	1,000,000	1,186,000	1,186,000
Deferred tax liabilities	*27*	64,078,636	64,078,636	64,078,636
		65,078,636	65,264,636	65,264,636
Net assets		190,554,635	189,523,795	187,616,423
EQUITY				
Share capital	*28*	12,000	12,000	12,000
Reserves	*29*	151,944,617	150,934,804	187,604,423
Equity attributable to Camex LLC's owners		151,956,617	150,946,804	187,616,423
Minority interests		38,598,018	38,576,991	–
Total equity		190,554,635	189,523,795	187,616,423

Statements of Financial Position

		As at 31 December		
	Notes	**2007**	**2008**	**2009**
		MNT'000	*MNT'000*	*MNT'000*
ASSETS AND LIABILITIES				
Non-current assets				
Investments in subsidiaries	*20*	1,215,390	1,215,390	1,622,833
Property, plant and equipment	*15*	227,167	227,352	209,776
Interests in leasehold land	*16*	11,562	169,586	135,779
Exploration and evaluation assets	*17*	1,083,497	1,358,936	1,431,057
Other intangible assets	*18*	4,021	5,167	3,589
Prepayments for exploration and evaluation activities		34,950	–	6,067
Amounts due from subsidiaries	*21*	1,811,333	4,178,672	4,571,091
		4,387,920	7,155,103	7,980,192
Current assets				
Amounts due from related parties	*22*	3,492	153,492	3,492
Other receivables, prepayments and deposits		25,661	28,407	30,082
Cash and cash equivalents	*23*	865,446	61,277	14,907
		894,599	243,176	48,481
Current liabilities				
Amount due to a director	*24*	2,486,389	3,062,492	4,415,702
Amount due to immediate holding company	*26*	3,611,448	6,179,043	6,703,925
Other payables and accruals		211,894	73,312	251,995
		6,309,731	9,314,847	11,371,622
Net current liabilities		(5,415,132)	(9,071,671)	(11,323,141)
Total assets less current liabilities/ Net liabilities		(1,027,212)	(1,916,568)	(3,342,949)
EQUITY				
Share capital	*28*	12,000	12,000	12,000
Reserves	*29*	(1,039,212)	(1,928,568)	(3,354,949)
Capital deficiency		(1,027,212)	(1,916,568)	(3,342,949)

Consolidated Statements of Cash Flow

	Year ended 31 December		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Cash flows from operating activities			
Profit/(Loss) before income tax	113,949,788	(1,030,840)	(1,499,929)
Adjustments for:			
Amortisation of interests in leasehold land	438	7,011	33,807
Amortisation of other intangible assets	499	1,346	1,578
Net depreciation of property, plant and equipment	16,615	29,707	21,360
Excess over the cost of business combination	(114,959,070)	–	–
Loss on disposal of an exploration licence	–	7,180	–
Loss on disposal of property, plant and equipment	–	–	7,709
Interest income	(2,826)	(31,770)	(21,146)
Exchange difference	–	502,106	829,997
Operating loss before working capital changes	(994,556)	(515,260)	(626,624)
(Increase)/Decrease in amount due from a minority shareholder	–	(150,000)	150,000
Decrease/(Increase) in other receivables, prepayments and deposits	76,694	(5,317)	39,193
Increase in amount due to a director	1,997,972	576,103	1,353,210
Decrease in amount due to a minority shareholder	(29,648)	(41,315)	(32,856)
Increase/(Decrease) in amount due to the immediate holding company	3,611,448	2,065,489	(305,115)
Increase/(Decrease) in other payables and accruals	233,566	(38,987)	(26,803)
Net cash from operating activities	4,895,476	1,890,713	551,005

Consolidated Statements of Cash Flow *(Continued)*

	Year ended 31 December		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Cash flows from investing activities			
Increase in prepayment for exploration, evaluation and mine development activities	(607,983)	(419,511)	(6,067)
Purchase of property, plant and equipment *(note)*	(467,274)	(1,532,541)	(171,258)
Payment for acquiring leasehold land	(12,000)	(165,035)	–
Purchase of other intangible assets	(4,520)	(3,526)	–
Payments for exploration and evaluation assets *(note)*	(1,903,048)	(1,113,318)	(416,838)
Proceeds from disposal of property, plant and equipment	–	–	71,661
Acquisition of a subsidiary (net of cash and cash equivalents acquired) *(note 30(a))*	(698,594)	–	–
Acquisition of additional interests in a subsidiary *(note 30(b) and (c))*	(351,805)	–	(280,091)
Government subsidies received	500,000	186,000	–
Interest received	2,826	31,770	21,146
Net cash used in investing activities	(3,542,398)	(3,016,161)	(781,447)
Cash flows from financing activities			
Proceeds from issue of capital	10,200	–	–
Net cash from financing activities	10,200	–	–
Net increase/(decrease) in cash and cash equivalents	1,363,278	(1,125,448)	(230,442)
Cash and cash equivalents at 1 January	8,683	1,371,961	246,513
Cash and cash equivalents at 31 December	1,371,961	246,513	16,071

Note:

Expenditures amounting to MNT129,000,000 incurred during the year ended 31 December 2007 were transferred from "prepayments" to "property, plant and equipment". In addition, expenditures amounting to MNT279,713,000 incurred during the year ended 31 December 2008 were transferred as to MNT244,763,000 from "prepayments" to "property, plant and equipment" and MNT34,950,000 from "prepayments" to "exploration and evaluation assets".

Consolidated Statements of Changes in Equity

	Equity attributable to owners of Camex LLC					
	Share capital *MNT'000*	Capital reserve* *MNT'000*	(Accumulated losses)/ Retained profit* *MNT'000*	Total *MNT'000*	Minority interests *MNT'000*	Total equity *MNT'000*
1 January 2007	1,800	–	(265,019)	(263,219)	–	(263,219)
Cancellation of shares *(note 28)*	(15,600)	–	–	(15,600)	–	(15,600)
Issue of shares *(note 28)*	25,800	–	–	25,800	–	25,800
Acquisition of a subsidiary *(note 30(a))*	–	–	–	–	77,209,671	77,209,671
Acquisition of minority interests *(note 30(b))*	–	38,252,413	–	38,252,413	(38,604,218)	(351,805)
Transactions with owners	10,200	38,252,413	–	38,262,613	38,605,453	76,868,066
Profit/(Loss) for the year	–	–	113,957,223	113,957,223	(7,435)	113,949,788
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the year	–	–	113,957,223	113,957,223	(7,435)	113,949,788
At 31 December 2007 and 1 January 2008	12,000	38,252,413	113,692,204	151,956,617	38,598,018	190,554,635
Transactions with owners	–	–	–	–	–	–
Loss for the year	–	–	(1,009,813)	(1,009,813)	(21,027)	(1,030,840)
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the year	–	–	(1,009,813)	(1,009,813)	(21,027)	(1,030,840)
At 31 December 2008 and 1 January 2009	12,000	38,252,413	112,682,391	150,946,804	38,576,991	189,523,795
Acquisition of minority interests *(note 30(c))*	–	38,159,852	–	38,159,852	(38,567,295)	(407,443)
Transactions with owners	–	38,159,852	–	38,159,852	(38,567,295)	(407,443)
Loss for the year	–	–	(1,490,233)	(1,490,233)	(9,696)	(1,499,929)
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the year	–	–	(1,490,233)	(1,490,233)	(9,696)	(1,499,929)
At 31 December 2009	12,000	76,412,265	111,192,158	187,616,423	–	187,616,423

* The total of these balances represents reserves in the consolidated statements of financial position.

Notes to the Financial Information

1. GENERAL INFORMATION

Camex LLC was incorporated and registered in Mongolia on 17 August 2006 with limited liability. The address of its registered office is Room 210, Silver Center, Builders' Square, Khoroo 4, Chingeltei District, Ulaanbaatar, Mongolia and the address of its principal place of business is Bayangol Hotel Office, Chinngis Avenue, Sukhbaatar District 1st Khoroo, Ulaanbaatar, Mongolia.

The principal activities of Camex LLC are mineral resources exploration in Mongolia and investment holding. The principal activities of Camex LLC's subsidiaries comprise mineral resources exploration and mining in Mongolia.

In the opinion of the directors of Camex LLC, as at 31 December 2009, the immediate holding company of Camex LLC is Central Asia Mineral Exploration Pte. Ltd. ("Camex Pte"), a company incorporated in Singapore, and the ultimate parent company of Camex LLC is Best State Holdings Limited, a company incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION

The Financial Information has been prepared in accordance with HKFRSs (including all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the HKICPA. The Financial Information also complies with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. These are the first set of financial statements of Camex LLC Group and the directors have adopted, in the first time, HKFRSs in preparing these financial statements.

For the purpose of preparing the Financial Information, Camex LLC Group has adopted all applicable HKFRSs that are relevant to Camex LLC Group and are effective for the accounting period beginning 1 January 2009 throughout the Relevant Periods to the extent required by HKFRSs.

At the date of issue of this Financial Information, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by Camex LLC Group. The directors of Camex LLC anticipate that all of the pronouncements will be adopted in Camex LLC Group for the first period beginning after the effective date of the pronouncement. Information on new and revised HKFRSs that are expected to have impact on Camex LLC Group's accounting policies is provided below:

(i) HKFRS 3 Business combinations (2008 Revised)

This standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

2. BASIS OF PREPARATION *(Continued)*

(ii) HKAS 27 Consolidated and separate financial statements (2008 Revised)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in Camex LLC Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors do not expect the standard to have a material effect on Camex LLC Group's financial statements.

(iii) HKFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in statement of comprehensive income except for those on certain equity investments which will be presented in other comprehensive income. The directors are currently assessing the possible impact of the new standard on Camex LLC Group's results and financial position in the first year of application.

(iv) Annual improvements 2009

The HKICPA has issued Improvements to Hong Kong Financial Reporting Standards 2009. Most of the amendments become effective for annual periods beginning on or after 1 January 2010. The directors expect the amendment to HKAS 17 Leases to be relevant to Camex LLC Group's accounting policies. Prior to the amendment, HKAS 17 generally required a lease of land to be classified as an operating lease. The amendment requires a lease of land to be classified as an operating or finance lease in accordance with the general principles in HKAS 17. Camex LLC Group will need to reassess the classification of its unexpired leases of land at 1 January 2010 on the basis of information existing at the inception of those leases in accordance with the transitional provisions for the amendment. The amendment will apply retrospectively except where the necessary information is not available. In that situation, the leases will be assessed on the date when the amendment is adopted. The directors are currently assessing the possible impact of the amendment on the Camex LLC Group's results and financial position in the first year of application.

2. BASIS OF PREPARATION *(Continued)*

Certain other new and revised HKFRSs have been issued but are not expected to have a material impact to Camex LLC Group's financial statements.

The significant accounting policies that have been used in the preparation of the Financial Information are set out in note 3. These policies have been consistently applied throughout the Relevant Periods unless otherwise stated.

Camex LLC had capital deficiency of MNT1,027,212,000, MNT1,916,568,000 and MNT3,342,949,000 as at 31 December 2007, 2008 and 2009 respectively, and that Camex LLC Group had net current liabilities of MNT4,974,328,000, MNT9,007,855,000 and MNT11,373,275,000 as at 31 December 2007, 2008 and 2009 respectively. In addition, Camex LLC Group has not yet commenced revenue-generating activities and it had capital commitments of approximately MNT6,109,109,000, MNT5,054,603,000 and MNT5,146,306,000 as at 31 December 2007, 2008 and 2009 respectively. In spite of these, the Financial Information has been prepared on a going concern basis since certain of the beneficial owners of the Target Company have agreed to provide adequate funds to enable Camex LLC and Camex LLC Group to meet in full their financial obligations as they fall due. In addition, the Company has agreed to provide financial support to Camex LLC and Camex LLC Group to enable Camex LLC and Camex LLC Group to meet in full their financial obligations as they fall due upon completion of the Acquisition.

Should Camex LLC or Camex LLC Group be unable to continue in business as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to reclassify non-current assets and liabilities as current assets and liabilities respectively, and to provide for any further liabilities which might arise. These adjustments have not yet been reflected in the Financial Information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 General

The Financial Information has been prepared under historical cost convention. The measurement bases are fully described in the accounting policies below.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Basis of consolidation

The Financial Information incorporates the financial statements of Camex LLC and its subsidiaries made up to 31 December each year.

Subsidiaries *(note 3.3)* are consolidated from the date on which control is transferred to Camex LLC Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from Camex LLC Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by Camex LLC Group.

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

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

3.3 Subsidiaries

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.3 Subsidiaries *(Continued)*

Changes in Camex LLC's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction.

In Camex LLC's statements of financial position, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by Camex LLC on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in Camex LLC's statement of comprehensive income.

3.4 Foreign currency translation

The Financial Information is presented in Mongolian Tugrik ("MNT"), which is also the functional currency of Camex LLC and its subsidiaries.

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

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3.5 Goodwill

Goodwill arising from the acquisition of subsidiaries represents the excess of the cost of the business combination over the Camex LLC Group's interest in the net fair value of the identifiable assets acquired and liabilities including contingent liabilities assumed as at the date of acquisition. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by Camex LLC Group, plus any costs directly attributable to the business combination.

Goodwill arising on acquisition is initially recognised in consolidated statements of financial position as an asset at cost and subsequently measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually at the reporting date or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may be impaired *(note 3.12)*.

On subsequent disposal of a subsidiary, the carrying amount of goodwill relating to the entity sold is included in determining the amount of gain or loss on disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.6 Excess over the cost of business combinations

Any excess of Camex LLC Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in the consolidated statements of comprehensive income.

3.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost, which comprise purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use, less accumulated depreciation and any impairment losses *(note 3.12)*.

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

Depreciation for items of property, plant and equipment which form part of a mine processing plant is calculated based on unit-of-production basis. Depreciation for other items of property, plant and equipment is calculated using the straight-line method to write off the cost of property, plant and equipment, less any estimated residual values, over the following estimated useful lives:

Buildings	The shorter of the lease terms and 40 years
Plant and machinery	3 – 10 years
Furniture, fixtures and equipment	3 – 5 years
Motor vehicles	5 years

Depreciation for those items of property, plant and equipment which form part of a mine processing plant commences when the processing plant is capable of operating at commercial level. Depreciation for other items of property, plant and equipment commences when the asset is first available for use.

The assets' depreciation methods, estimated useful lives and residual values are reviewed and adjusted, if appropriate, at each reporting date.

Construction in progress represents asset in the course of construction for production or for its own use purpose and is stated at cost less any impairment loss. Cost comprises construction expenditure and other direct costs attributable to such projects and is reclassified to the appropriate category of property, plant and equipment when completed and ready for intended use.

The gain or loss on retirement or disposal of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated statements of comprehensive income.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

3.8 Interests in leasehold land

Interests in leasehold land are up-front prepayments made for the leasehold land and land use rights which are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on a straight-line basis over the lease term. The determination if an arrangement is or contains a lease and the lease is an operating lease is detailed in note 3.19.

3.9 Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any accumulated impairment losses. Exploration and evaluation assets include the cost of obtaining/acquiring and maintaining mining and exploration rights, expenditures incurred in the search for mineral resources as well as the determination of the technical feasibility and commercial viability of extracting those resources. They also include administration costs and finance cost which relate to specific exploration and evaluation activities. Such expenditures incurred before obtaining the legal rights to explore specific area are charged to the consolidated statements of comprehensive income.

When the technical feasibility and commercial viability of extracting mineral resources become demonstrable, previously recognised exploration and evaluation assets are transferred to other intangible assets (i.e. mine development assets) or other fixed assets. These assets are assessed for impairment before reclassification.

The carrying amount of the exploration and evaluation assets is reviewed annually or when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. Such facts and circumstances include:

(i) the period for which Camex LLC 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;

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

(iii) 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 Camex LLC Group has decided to discontinue such activities in the specific area; or

(iv) 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 or by sale.

In any such case, or similar cases, Camex LLC Group performs an impairment test in accordance with HKAS 36 "Impairment of Assets" *(note 3.12)*.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.10 Prepayments for exploration, evaluation and mine development activities

Prepayments for exploration, evaluation and mine development activities are stated at cost and are recognised as exploration and evaluation assets, other intangible assets or other fixed assets as appropriate when work has been performed.

3.11 Other intangible assets – software

Software acquired separately and with finite useful lives is carried at cost less accumulated amortisation and any accumulated impairment losses. Software is amortised on a straight-line basis over their estimated useful lives of 3 to 5 years.

3.12 Impairment of non-financial assets (excluding exploration and evaluation assets)

Goodwill, other intangible assets, property, plant and equipment, interests in leasehold land and investments in subsidiaries are subject to impairment testing. Goodwill and other intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

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

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within Camex LLC Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.13 Financial assets

Camex LLC Group's financial assets are classified into loans and receivables including amounts due from related parties. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, Camex LLC Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expired or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Loans and receivables

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

Impairment of financial assets

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable date that come to the attention of Camex LLC Group about one or more of the followings loss events:

– significant financial difficulty of the debtors;

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.13 Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

– it becoming probable that the debtors will enter bankruptcy or other financial reorganisation; and

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

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the consolidated statements of comprehensive income in the period in which the impairment occurs. If in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the consolidated statements of comprehensive income in the period in which the reversal occurs.

3.14 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand and demand deposits with banks. For the purpose of the consolidated statements of cash flow presentation, cash and cash equivalents include bank overdrafts which form an integral part of Camex LLC Group's cash management.

3.15 Financial liabilities

Financial liabilities of Camex LLC Group include payables and accruals including amounts due to related parties.

Financial liabilities are recognised when Camex LLC Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with Camex LLC Group's accounting policy for borrowing costs *(note 3.23)*.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.15 Financial liabilities *(Continued)*

Financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

3.16 Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.17 Short-term employee benefits and retirement benefit costs

Short-term employee benefits

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

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

Pension scheme

Retirement benefits to employees are provided through defined contribution plans. A defined contribution plan is a pension plan under which Camex LLC Group pays fixed contributions into a separate entity. Contributions to defined contribution plans are recognised as expense in the statement of comprehensive income as employees render services during the year. Camex LLC Group's obligations under these plans is limited to the fixed percentage contributions payable.

3.18 Provisions and contingent liabilities

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

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

3.19 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if Camex LLC Group determines that the arrangement conveys a right to use 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.19 Leases *(Continued)*

Lease where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Where Camex LLC Group has the right to use the assets held under operating leases, payments made under the leases are charged to statement of comprehensive income on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the aggregate net lease payments made. Contingent rental are charged to the consolidated statements of comprehensive income in the accounting period in which they are incurred.

3.20 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of share that have been issued. Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

3.21 Revenue and other income recognition

Revenue is measured at fair value of the consideration received or receivable net of discounts and sales related taxes. Revenue and other income are recognised when it is probable that the economic benefits will flow to Camex LLC Group and when the revenue and costs, if applicable, can be measured reliably, on the following bases:

(i) Sales of goods – when the significant risks and rewards of ownership have been transferred to the buyer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

(ii) Interest income – on a time proportion basis using the effective interest method.

(iii) Dividend is recognised when the right to receive payment is established.

3.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and Camex LLC Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the consolidated statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are deducted from the carrying amount of the property, plant and equipment.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

3.23 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Other borrowing costs are expensed when incurred.

3.24 Related parties

For the purpose of this Financial Information, a party is considered to be related to Camex LLC Group if:

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

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

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

(iv) the party is a member of key management personnel of Camex LLC 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 Camex LLC Group, or of any entity that is a related party of Camex LLC 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical judgements

Going concern basis

The assessment of the going concern assumption involves making judgement by the directors of Camex LLC, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The directors of Camex LLC consider that Camex LLC and Camex LLC Group have the ability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumption are set out in note 2.

4.2 Critical accounting estimates and assumptions

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

Impairment of exploration and evaluation assets

Under the full cost method of accounting exploration and evaluation costs, such costs are capitalised by reference to appropriate cost pools, and are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This assessment involves judgement as to (i) the likely future commerciality of the asset and when such commerciality should be determined; and (ii) future revenues and costs pertaining to the asset in question, and the discount rate to be applied to such revenues and cost for the purpose of deriving a recoverable value. While conducting an impairment review of its assets, management of Camex LLC Group exercise certain judgements in making assumptions about the future market prices, reserves and future development and production costs. Changes in these estimates may result in significant changes to statement of comprehensive income.

Estimated useful lives of property, plant and equipment

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives. The estimation of useful lives of the depreciable assets is based on the experience of the management, and useful lives are reviewed at each reporting date based on changes in circumstances. When useful lives of property, plant and equipment are different from that previously estimated, the depreciation charges for future periods will be adjusted accordingly.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.2 Critical accounting estimates and assumptions *(Continued)*

Provision for reclamation and closure cost

Provision for reclamation and closure cost is estimated based on management's interpretation of current regulatory requirements and their past experiences. Provision set up, if any, is reviewed regularly by management to ensure it properly reflects the obligation arising from the mining and exploration activities.

Estimates of current and deferred tax

Camex LLC Group is subject to income taxes in Mongolia. Significant judgement is required in determining the provision for taxation and timing of payment of related taxes. Determining income tax provisions involves judgement on the future tax treatment of certain transactions. Camex LLC Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Where the final tax outcome of these transactions is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the year/period in which such determination is made.

5. REVENUE

Camex LLC Group did not generate any turnover or revenue during the Relevant Periods.

6. SEGMENT INFORMATION

No segment information is presented as Camex LLC Group operates in one single business segment i.e. exploration and development of mineral resources, and financial information reported here are on the same basis as those used internally by the chief operating decision-maker, i.e. the directors of Camex LLC. Substantially all of Camex LLC Group's assets and liabilities are located in Mongolia and accordingly, no geographical information has been disclosed in this Financial Information.

7. EXCESS OVER THE COST OF BUSINESS COMBINATION

Excess over the cost of business combination amounting to MNT114,959,070,000 arose from the acquisition of 60% equity interest in the subsidiary, TNE, in 2007 as detailed in note 30(a).

8. FINANCE COSTS

	Year ended 31 December		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Interest charges on:			
Bank loans wholly repayable within five years	58,744	–	–
Less: Interest capitalised in exploration and evaluation assets	(58,744)	–	–
	–	–	–

9. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(Loss) before income tax is arrived at after charging/(crediting):

	Year ended 31 December		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Amortisation of interests in leasehold land	438	7,011	33,807
Amortisation of other intangible assets	499	1,581	1,829
Less: Amount capitalised in exploration and evaluation assets	–	(235)	(251)
Net amortisation of other intangible assets	499	1,346	1,578
Depreciation of property, plant and equipment	28,231	62,059	176,657
Less: Amount capitalised in exploration and evaluation assets	(11,616)	(32,352)	(155,297)
Net depreciation of property, plant and equipment	16,615	29,707	21,360
Employee benefit expenses including directors' remuneration *(note)*	150,964	218,887	369,006
Interest income	(2,826)	(31,770)	(21,146)
Net exchange loss	–	502,106	829,997
Write-off of project costs #	538,639	23,354	70,966
Loss on disposal of an exploration licence #	–	7,180	–
Loss on disposal of property, plant and equipment #	–	–	7,709
Operating lease charge in respect of land and buildings	14,997	33,560	47,530

included in other operating expenses

9. PROFIT/(LOSS) BEFORE INCOME TAX *(Continued)*

Note:

Details of the employee benefit expenses are as follows:

	Year ended 31 December		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Salaries, allowances and benefits in kind	151,844	306,737	445,032
Contributions to retirement benefits scheme	34,900	36,086	34,577
	186,744	342,823	479,609
Less: Amounts capitalised in exploration and evaluation assets	(35,780)	(123,936)	(110,603)
	150,964	218,887	369,006

10. INCOME TAX EXPENSE

Camex LLC and its subsidiaries are subject to Mongolian income tax which is calculated at the rate of 10% on the first MNT3 billion of taxable income and 25% on the amounts in excess thereof.

No income tax has been provided by Camex LLC Group during the Relevant Periods as it did not derive any assessable income arising in Mongolia during the Relevant Periods. No Hong Kong profits tax was provided by Camex LLC Group as it had no assessable profits arising in or derived from Hong Kong.

Reconciliation between income tax expense and accounting profit/(loss) at applicable tax rates is as follows:

	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Profit/(Loss) before income tax	113,949,788	(1,030,840)	(1,499,929)
Tax calculated at the rate of 10%	11,394,979	(103,084)	(149,993)
Tax effect of non-taxable income	(11,495,901)	–	–
Tax effect of non-deductible expenses	53,864	52,546	90,096
Tax effect of unused tax losses not recognised	50	91	130
Tax effect of other unrecognised temporary differences	47,008	50,447	59,767
Income tax expense	–	–	–

11. DIVIDEND

No dividends was paid or proposed during the Relevant Periods.

12. CONSOLIDATED PROFIT/LOSS ATTRIBUTABLE TO OWNERS OF CAMEX LLC

The consolidated profit/(loss) attributable to the owners of Camex LLC for the years ended 31 December 2007, 2008 and 2009 includes losses of approximately MNT966,243,000, MNT889,356,000 and MNT1,426,381,000 respectively which have been dealt with in the financial statements of Camex LLC.

13. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

Directors' emoluments

The aggregate amount of emoluments paid and payable to the directors of Camex LLC during the Relevant Periods are as follows:

	Fees	Salaries, allowances and benefits in kind	Retirement benefits contribution	Bonus	Total
	MNT'000	*MNT'000*	*MNT'000*	*MNT'000*	*MNT'000*
Year ended 31 December 2007					
Mr. Batsukh Yadamsuren #	–	11,265	2,141	–	13,406
Mr. Lim Siong, Dennis *	–	–	–	–	–
	–	11,265	2,141	–	13,406
Year ended 31 December 2008					
Mr. Lim Siong, Dennis	–	–	–	–	–
Year ended 31 December 2009					
Mr. Lim Siong, Dennis	–	172,030	–	–	172,030

resigned on 26 July 2007
* appointed on 26 July 2007

There were no arrangements under which a director waived or agreed to waive any remuneration during the Relevant Periods.

No emoluments were paid to the directors of Camex LLC or employees of Camex LLC Group during the Relevant Periods as an inducement to join or upon joining Camex LLC Group or as compensation for loss of office.

13. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

Five highest paid individuals

The five individuals whose remunerations were the highest in Camex LLC Group for the years ended 31 December 2007 and 2009 included one director whose emoluments are reflected in the analysis presented above. The remunerations paid or payable to the remaining four individuals and the remunerations paid or payable to the five highest paid individual for the year ended 31 December 2008 who are not directors are as follows:

	Year ended 31 December		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Salaries, allowances and benefits in kind	48,715	77,290	66,156
Contributions to retirement benefits scheme	9,256	9,275	7,939
	57,971	86,565	74,095

The remuneration of each of those five highest paid individuals excluding those who was director in the respective period fell within the salary band of HK$1,000,000 (equivalent to approximately MNT183,974,000) or below.

14. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share for the Relevant Periods is based on the following data:

	Year ended 31 December		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Profit/(Loss) attributable to owners of Camex LLC	113,957,223	(1,009,813)	(1,490,233)

	2007	**2008**	**2009**
Weighted average number of shares in issue	10,000	10,000	10,000

Camex LLC Group has no potential dilutive shares in issue.

15. PROPERTY, PLANT AND EQUIPMENT

Camex LLC Group

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	MNT'000	*MNT'000*	*MNT'000*	*MNT'000*	*MNT'000*	*MNT'000*
At 1 January 2007						
Cost	–	–	49,376	25,676	–	75,052
Accumulated depreciation	–	–	(1,426)	(467)	–	(1,893)
Net carrying amount	–	–	47,950	25,209	–	73,159
Year ended 31 December 2007						
Opening net carrying amount	–	–	47,950	25,209	–	73,159
Additions	26,340	41,698	25,123	150,208	352,905	596,274
Acquisition through business combination *(note 30(a))*	119,529	696	20,440	16,502	–	157,167
Disposal	–	–	(80)	–	–	(80)
Depreciation	(5,556)	(996)	(11,981)	(9,698)	–	(28,231)
Closing net carrying amount	140,313	41,398	81,452	182,221	352,905	798,289
At 31 December 2007						
Cost	145,869	42,394	94,859	192,386	352,905	828,413
Accumulated depreciation	(5,556)	(996)	(13,407)	(10,165)	–	(30,124)
Net carrying amount	140,313	41,398	81,452	182,221	352,905	798,289
Year ended 31 December 2008						
Opening net carrying amount	140,313	41,398	81,452	182,221	352,905	798,289
Additions	–	783,364	20,146	18,135	955,659	1,777,304
Transfer	849,268	459,296	–	–	(1,308,564)	–
Depreciation	(9,082)	(13,290)	(19,483)	(20,204)	–	(62,059)
Closing net carrying amount	980,499	1,270,768	82,115	180,152	–	2,513,534
At 31 December 2008						
Cost	995,137	1,285,054	115,005	210,521	–	2,605,717
Accumulated depreciation	(14,638)	(14,286)	(32,890)	(30,369)	–	(92,183)
Net carrying amount	980,499	1,270,768	82,115	180,152	–	2,513,534
Year ended 31 December 2009						
Opening net carrying amount	980,499	1,270,768	82,115	180,152	–	2,513,534
Additions	21,639	48,156	15,880	85,583	–	171,258
Disposal	–	–	–	(79,370)	–	(79,370)
Depreciation	(8,303)	(125,065)	(29,028)	(14,261)	–	(176,657)
Closing net carrying amount	993,835	1,193,859	68,967	172,104	–	2,428,765
At 31 December 2009						
Cost	1,016,776	1,333,210	130,885	204,297	–	2,685,168
Accumulated depreciation	(22,941)	(139,351)	(61,918)	(32,193)	–	(256,403)
Net carrying amount	993,835	1,193,859	68,967	172,104	–	2,428,765

Titles in respect of certain buildings located at certain mine sites in Mongolia have not yet been obtained as the construction of those buildings has not yet been completed as at the date of each Relevant Periods.

The mine processing plant of Camex LLC Group has not yet commenced production during the Relevant Periods and accordingly, depreciation for those items of property, plant and equipment which form part of the mine processing plant has not yet been provided.

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Camex LLC

	Furniture, fixtures and equipment *MNT'000*	**Motor vehicles** *MNT'000*	**Total** *MNT'000*
At 1 January 2007			
Cost	49,376	25,676	75,052
Accumulated depreciation	(1,426)	(467)	(1,893)
Net carrying amount	47,950	25,209	73,159
Year ended 31 December 2007			
Opening net carrying amount	47,950	25,209	73,159
Additions	21,100	150,208	171,308
Depreciation	(8,949)	(8,351)	(17,300)
Closing net carrying amount	60,101	167,066	227,167
At 31 December 2007			
Cost	70,476	175,884	246,360
Accumulated depreciation	(10,375)	(8,818)	(19,193)
Net carrying amount	60,101	167,066	227,167
Year ended 31 December 2008			
Opening net carrying amount	60,101	167,066	227,167
Additions	15,240	18,135	33,375
Depreciation	(14,782)	(18,408)	(33,190)
Closing net carrying amount	60,559	166,793	227,352
At 31 December 2008			
Cost	85,716	194,019	279,735
Accumulated depreciation	(25,157)	(27,226)	(52,383)
Net carrying amount	60,559	166,793	227,352
Year ended 31 December 2009			
Opening net carrying amount	60,559	166,793	227,352
Additions	4,769	85,583	90,352
Disposal	–	(79,370)	(79,370)
Depreciation	(16,093)	(12,465)	(28,558)
Closing net carrying amount	49,235	160,541	209,776
At 31 December 2009			
Cost	90,485	187,795	278,280
Accumulated depreciation	(41,250)	(27,254)	(68,504)
Net carrying amount	49,235	160,541	209,776

16. INTERESTS IN LEASEHOLD LAND

Camex LLC Group's and Camex LLC's interests in leasehold land represent prepaid operating lease payments for certain land in Mongolia and the movement in their net carrying amounts are analysed as follows:

	Year ended 31 December		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Carrying amount at 1 January	–	11,562	169,586
Additions	12,000	165,035	–
Amortisation	(438)	(7,011)	(33,807)
Carrying amount at 31 December	11,562	169,586	135,779

The analysis of the net carrying amounts of the leasehold land based on lease period is as follows:

	As at 31 December		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Outside Hong Kong, held on:			
Lease between 10 to 50 years	11,562	10,762	9,962
Lease less than 10 years	–	158,824	125,817
	11,562	169,586	135,779

17. EXPLORATION AND EVALUATION ASSETS

Camex LLC Group

	Exploration and mining rights	**Others**	**Total**
	MNT'000	*MNT'000*	*MNT'000*
	(note (a))	*(note (b))*	*(note (c))*
On 1 January 2007	–	–	–
Additions *(note (a)(i)&(ii))*	349,936	1,564,808	1,914,744
Acquisition through business combination *(note (a)(iii))*	256,318,762	1,081,238	257,400,000
At 31 December 2007	256,668,698	2,646,046	259,314,744
Additions *(note (a)(iv))*	192,947	987,908	1,180,855
Disposal *(note (a)(iv))*	(7,180)	–	(7,180)
At 31 December 2008	256,854,465	3,633,954	260,488,419
Additions	103,620	468,766	572,386
At 31 December 2009	256,958,085	4,102,720	261,060,805

17. EXPLORATION AND EVALUATION ASSETS *(Continued)*

Camex LLC

	Exploration and mining rights	Others	Total
	MNT'000	*MNT'000*	*MNT'000*
	(note (a))	*(note (b))*	*(note (c))*
On 1 January 2007	–	–	–
Additions *(note (a)(ii))*	293,256	790,241	1,083,497
At 31 December 2007	293,256	790,241	1,083,497
Additions *(note (a)(iv))*	139,143	143,476	282,619
Disposal *(note (a)(iv))*	(7,180)	–	(7,180)
At 31 December 2008	425,219	933,717	1,358,936
Additions	27,158	44,963	72,121
At 31 December 2009	452,377	978,680	1,431,057

Notes:

(a) The balance represents the costs of obtaining/acquiring exploration and mining rights to certain area in Mongolia with gold, copper and coal deposit. Pursuant to the Mineral Law of Mongolia which was adopted in 2006 (the "2006 Mineral Law"), exploration licence is granted for an initial period of three years and holder of an exploration licence may apply for an extension of such licence for two successive periods of three years each. Mining licence is granted for an initial period of 30 years and holder of a mining licence may apply for an extension of such licence for two successive periods of 20 years each.

Further details about the exploration and mining rights are as follows:

(i) On 22 August 2006, Camex LLC entered into a founding agreement with an independent third party to set up a joint venture business, Kores, in Mongolia to carry out the business of mineral resources exploration. Pursuant to the joint venture arrangement, the independent third party transferred two exploration licences to Kores in February 2007. The two exploration licences, which were first issued in 2004 and re-registered under the 2006 Mineral Law, give right to explore certain area in Gobi-Altai, Mongolia covering 44,027 hectares (revised to 44,016 hectares as at the date of this report) in aggregate with gold and copper deposit.

(ii) On 13 March 2007, Camex LLC entered into an agreement regarding the acquisition of two exploration licences, which were first issued in 2004 and re-registered under the 2006 Mineral Law, in respect of certain area in Zavkhan, Mongolia covering 15,517 hectares in aggregate with gold and copper deposit.

(iii) On 27 February 2007, Camex LLC acquired 60% equity interest in TNE (note 30 (a)) which held one mining licence (first issued in 1995) and three exploration licences in respect of a coal mine located in Tuv Province of Mongolia covering an area of 1,114 hectares in aggregate. Two of the three exploration licences were subsequently converted into mining licences in April 2008 and the remaining exploration licence was subsequently converted into mining licence in January 2010.

(iv) In January 2008, Camex LLC was granted an exploration licence in respect of a coal mine in Dundgobi, Mongolia. The licence was subsequently sub-divided into four exploration licences and one of the four exploration licences was disposed of. The remaining three exploration licences cover an area of 14,087 hectares in aggregate.

17. EXPLORATION AND EVALUATION ASSETS *(Continued)*

Notes: (Continued)

(b) Others mainly comprise geological and geophysical costs, costs incurred for drilling, trenching and excavation works, costs incurred for sampling and laboratory works, costs incurred for evaluation such as environment assessment and feasibility study, as well as depreciation and labour costs directly attributable to the exploration activities.

(c) The amounts of exploration and evaluation assets as at 31 December 2007, 2008 and 2009 represent active exploration and mining projects. Based on the assessment of the directors, there are no indications of impairment regarding the respective projects as at the end of each Relevant Periods.

18. OTHER INTANGIBLE ASSETS

Other intangible assets represent software acquired by Camex LLC and Camex LLC Group. The movements during the Relevant Periods comprise amortisation which is included in "administrative expenses" in the consolidated statement of comprehensive income and in particular for the years ended 31 December 2007 and 2008, purchase of other intangible assets of MNT4,520,000 and MNT3,526,000 respectively.

19. PREPAYMENTS FOR EXPLORATION, EVALUATION AND MINE DEVELOPMENT ACTIVITIES

	As at 31 December		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Prepaid licence fees *(note (a))*	361,391	471,279	477,346
Others *(note (b))*	117,592	147,502	147,502
	478,983	618,781	624,848

Notes:

(a) Prepaid licence fees of Camex LLC Group represent payments to a supplier regarding the transfer of technical know-how which is to be used in a processing plant for smokeless fuel product. As at 31 December 2009, certain conditions as set forth in the licence agreement signed with the supplier have not yet been fulfilled and accordingly, the transfer of the technical know-how is not yet completed.

(b) Others mainly represent prepayments for machinery and equipments.

20. INVESTMENTS IN SUBSIDIARIES

	As at 31 December		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Unlisted shares, at costs	1,216,390	1,216,390	1,623,833
Less: Provision for impairment	(1,000)	(1,000)	(1,000)
	1,215,390	1,215,390	1,622,833

21. AMOUNTS DUE FROM SUBSIDIARIES

The amounts due are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, these balances which are considered as quasi-equity loans to the subsidiaries are not repayable within twelve months from each of the reporting dates.

22. AMOUNTS DUE FROM MINORITY SHAREHOLDERS/RELATED PARTIES

These balances are due from the minority shareholders of certain subsidiaries of Camex LLC which are classified as amounts due from related parties in the financial statements of Camex LLC.

The balances comprise (i) an amount of MNT3,492,000 due from the joint venture partner of Kores as at 31 December 2007, 2008 and 2009 which are unsecured, interest-free and repayable on demand; and (ii) an amount of MNT150,000,000 due from the minority shareholder of TNE as at 31 December 2008 which was secured by the minority shareholder's 20% equity interest in TNE and repayable on 26 August 2008. The amount due from the minority shareholder of TNE was settled in 2009 by offsetting part of the consideration for acquiring the 20% equity interest in TNE by Camex LLC as detailed in note 30(c).

The directors of Camex LLC consider that the fair values of these balances are not materially different from their carrying amounts due to short maturity period.

23. CASH AND CASH EQUIVALENTS

The balances represent cash at banks and in hand. Cash at banks earns interest at the floating rates based on the daily bank deposit rates.

24. AMOUNT DUE TO A DIRECTOR/A MINORITY SHAREHOLDER

"Amount due to a director" represents balance due to Mr. Dennis Lim, a director of Camex LLC, whereas "amount due to a minority shareholder" represents balance due to the minority shareholder of TNE. All these balances due are unsecured, interest-free and repayable on demand. The directors of Camex LLC consider that the carrying amounts of these balances approximate their fair values due to short maturity period.

25. GOVERNMENT SUBSIDIES

During the years ended 31 December 2007 and 2008, TNE received government subsidies amounted to MNT1,000,000,000 and MNT186,000,000 respectively. These subsidies were granted by the government of Mongolia to finance TNE in establishing a processing plant for smokeless fuel product. Since the investment cost for constructing the processing plant as well as the related government subsidies are still subject to negotiation with the government, the received subsidies were recognised as current liabilities as at the end of each Relevant Periods. Further details about the processing plant are included in note 32(i).

26. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount due is unsecured, interest-free and has no fixed terms of repayment. The directors of Camex LLC consider that the carrying amount of the balance approximate its fair value due to short maturity period.

27 DEFERRED TAX LIABILITIES

The movement in the carrying amounts of deferred tax liabilities of Camex LLC Group during the Relevant Periods is as follows:

	Exploration and evaluation assets
	MNT'000
At 1 January 2007	–
Acquisition of a subsidiary *(note 30(a))*	64,078,636
At 31 December 2007, 2008 and 2009	64,078,636

Camex LLC Group has reported tax losses arising in Mongolia of approximately MNT502,000, MNT907,000 and MNT1,295,000 as at 31 December 2007, 2008 and 2009 respectively. Deferred tax assets are not recognised in respect of these tax losses due to the unpredictability of future profit streams.

According to the Economic Entity Tax Law of Mongolia, effective from 1 January 2010, operating losses accumulated by mining companies can be carried forward and deducted from taxable income for a period from four to eight years following the year in which the loss was incurred, the determination of the carry-forward period applicable to any particular mining company to be determined by the government of Mongolia taking into consideration the investment made by such company in its mining operations.

28. SHARE CAPITAL

	Note	Par value per share	Number of shares	Carrying amount
		MNT		*MNT'000*
Authorised, issued and fully paid:				
At 1 January 2007		18,000	100	1,800
Issue of shares	*(a)*	18,000	100	1,800
Cancellation of shares	*(b)*		(200)	(3,600)
Issue of shares	*(b)*	1,000	12,000	12,000
Cancellation of shares	*(c)*		(12,000)	(12,000)
Issue of shares	*(c)*	1,200	10,000	12,000
At 31 December 2007, 2008 and 2009		1,200	10,000	12,000

28. SHARE CAPITAL *(Continued)*

Camex LLC was incorporated and registered in Mongolia on 17 August 2006 with initial registered share capital of MNT1,800,000 divided into 100 shares of MNT18,000 each. All the shares were allocated and issued to subscribers to provide initial capital for Camex LLC. The movements in share capital of Camex LLC for the year ended 31 December 2007 were summarised as follows:

(a) Pursuant to the written resolution dated 13 March 2007, 100 shares of MNT18,000 each were issued at par and the authorised and issued capital of Camex LLC was then increased to MNT3,600,000 divided into 200 shares of MNT18,000 each.

(b) Pursuant to the written resolution dated 4 June 2007, the authorised and issued capital of Camex LLC was increased to MNT12,000,000 divided into 12,000 shares of MNT1,000 each.

(c) Pursuant to the written resolution dated 26 July 2007, the registered and issued capital of Camex LLC was changed to MNT12,000,000 divided into 10,000 shares of MNT1,200 each.

There were no movements in the share capital of Camex LLC during the years ended 31 December 2008 and 2009.

29. RESERVES

Camex LLC Group

Details of the movements in the reserves of Camex LLC Group during the Relevant Periods are set out in the consolidated statements of changes in equity.

Capital reserve as at 31 December 2007, 2008 and 2009 was resulted from the acquisition of additional interests in the subsidiary, TNE, which represents the difference between the fair value of the considerations given and the carrying amount of the net assets attributable to the additional interests in TNE acquired from holders of the minority interests.

Camex LLC

The movements in the reserves of Camex LLC during the Relevant Periods were as follows:

	Accumulated loss *MNT'000*
At 1 January 2007	(72,969)
Loss for the year	(966,243)
At 31 December 2007	(1,039,212)
Loss for the year	(889,356)
At 31 December 2008	(1,928,568)
Loss for the year	(1,426,381)
At at 31 December 2009	(3,354,949)

30. BUSINESS COMBINATIONS

(a) Acquisition of 60% equity interest in TNE

On 27 February 2007, Camex LLC acquired 60% equity interest in TNE by way of assuming the bank borrowing of TNE amounting to US$731,000 (equivalent to MNT855,437,000). The acquisition is accounted for using purchase method. The fair values of the identifiable assets and liabilities of TNE on the date of acquisition are as follows:

	Carrying amount on the date of acquisition	Fair value adjustment	Fair value on the date of acquisition
	MNT'000	*MNT'000*	*MNT'000*
Property, plant and equipment	157,167	–	157,167
Exploration and evaluation assets	1,085,458	256,314,542	257,400,000
Receivables, prepayments and deposits	1,972	–	1,972
Cash and bank balances	156,843	–	156,843
Amount due to a minority shareholder	(103,819)	–	(103,819)
Other payables and accruals	(9,349)	–	(9,349)
Government subsidies	(500,000)	–	(500,000)
Deferred tax liabilities	–	(64,078,636)	(64,078,636)
Net assets	788,272	192,235,906	193,024,178
Minority interests			(77,209,671)
Net assets acquired			115,814,507
Excess over the cost of business combination *(note (i))*			(114,959,070)
Total consideration			855,437
Satisfied by:			
Assumption of bank borrowing			855,437
Net cash inflow/outflow in respect of the acquisition:			
Bank balances and cash acquired			156,843
Cash paid for settlement of the bank borrowing			(855,437)
Net cash outflow			(698,594)

30. BUSINESS COMBINATIONS *(Continued)*

(a) Acquisition of 60% equity interest in TNE *(Continued)*

Notes:

(i) The excess of Camex LLC's interests in the fair value of the identifiable assets and liabilities of TNE on the date of acquisition over the cost of the acquisition is a bargain purchase.

(ii) Since TNE has not yet generated any revenue and its net result for the year ended 31 December 2007 is insignificant, it did not have significant contribution to Camex LLC Group's revenue and result for the period from the date of acquisition to 31 December 2007 or for the year ended 31 December 2007 had the acquisition been taken place on 1 January 2007.

(b) Acquisition of additional 20% equity interest in TNE

On 26 June 2007, Camex LLC acquired additional 20% equity interest in TNE at the cash consideration of approximately US$301,000 (equivalent to approximately MNT351,805,000). The financial position of TNE on the date of acquiring further 20% equity interest in TNE by Camex LLC is as follows:

	MNT'000
Net assets acquired	38,604,218
Difference between the share of net assets acquired and the consideration *	(38,252,413)
Total consideration	351,805
Satisfied by:	
Cash	351,805

* dealt with in capital reserve

30. BUSINESS COMBINATIONS *(Continued)*

(c) Acquisition of remaining 20% equity interest in TNE

On 27 November 2009, Camex LLC acquired the remaining 20% equity interest in TNE at cash consideration of approximately MNT280,091,000 which was subsequently amended to MNT407,443,000 pursuant to the supplementary agreement signed on 1 December 2009. The financial position of TNE on the date of acquiring the remaining 20% equity interest in TNE by Camex LLC is as follows:

	MNT'000
Net assets acquired	38,567,295
Difference between the share of net assets acquired and the consideration *	(38,159,852)
Total consideration	407,443
Satisfied by:	
Cash *(note)*	407,443

* dealt with in capital reserve

Note:

Part of the consideration for the acquisition is offset against the amount due by the holder of the 20% equity interest in TNE to Camex LLC Group amounting to MNT150,000,000.

As at 31 December 2009, part of the consideration amounting to MNT127,352,000 has not been settled. Accordingly, net cash outflow in respect of the acquisition during the year ended 31 December 2009 amounted to MNT280,091,000.

31. OPERATING LEASE COMMITMENTS

At each reporting date, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings of Camex LLC Group and Camex LLC are as follows:

		Camex LLC Group **As at 31 December**	
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Within one year	4,700	12,439	20,827
In the second to fifth years, inclusive	425	–	–
	5,125	12,439	20,827

		Camex LLC **As at 31 December**	
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Within one year	600	12,219	20,827
In the second to fifth years, inclusive	425	–	–
	1,025	12,219	20,827

Camex LLC Group leases a number of properties under operating leases which run for an initial period of 1 to 2 years. None of these leases include contingent rentals.

32. CAPITAL COMMITMENTS

Camex LLC Group and Camex LLC had outstanding capital commitments as follows:

	Camex LLC Group		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Purchases of property, plant and equipment *(note (i))*	5,482,095	4,526,435	4,504,796
Acquisition of technical know-how	551,717	439,256	495,571
Other commitments related to exploration and evaluation activities	75,297	88,912	145,939
	6,109,109	5,054,603	5,146,306

	Camex LLC		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Commitments related to exploration and evaluation activities	18,155	28,595	43,508

Notes:

(i) Pursuant to the tender submitted to the relevant government authority of Mongolia dated 18 August 2006 which was accepted by the government authority on 11 October 2006, TNE has to establish a processing plant for the production of smokeless fuel product at an estimated investment cost of MNT5,835 million. In connection to this, TNE received subsidies from the government amounted to MNT1,186 million in aggregate up to 31 December 2008. The tender refers to a number of performance targets including the commencement of operation and production of the processing plant in March 2008, the production of a specified quantity of smokeless fuel per year and the capital injection of MNT5,835 million by March 2008. However, the performance targets are not yet achieved up to the date of this report.

Based on (i) a contract accomplishment notice dated 8 October 2008 was signed by TNE and the government authority confirming that the subsidies granted to TNE have been used for the construction of the processing plant and that the government has agreed to provide additional funding for the project; (ii) management has been actively communicating with the government authority regarding revising the existing investment plan as well as seeking for additional subsidies; and (iii) the legal advisors of Camex LLC Group, having considered the tender, the contract accomplishment notice and the circumstance arising, opine that it is very unlikely for the government to hold TNE responsible for the performance targets, the directors have assessed that the fact that the performance targets as set forth in the tender are not yet achieved do not result in the significant financial impact to Camex LLC Group. The outstanding commitment with reference to the existing investment plan amounted to approximately MNT5,482 million, MNT4,526 million and MNT4,505 million respectively as at 31 December 2007, 2008 and 2009 is disclosed herein. The entire amount of the government subsidies received were accounted for as liabilities until TNE and the government authority have come into a conclusion on the revised investment plan and the additional subsidies for the processing plan.

32. CAPITAL COMMITMENTS *(Continued)*

Notes: ***(Continued)***

(ii) Apart from the above, pursuant to the founding agreement signed by Camex LLC in respect of the subsidiary, Kores, on 22 August 2006, Camex LLC is required to contribute an amount of US$800,000 in respect of the exploration project of Kores by 31 December 2007. Otherwise, the two exploration licences transferred by the joint venture partner to Kores as mentioned in note 17(a)(i) will be returned to the joint venture partner. However, the amount of contribution made by Camex LLC to Kores as at 31 December 2007, 2008 and 2009 amounted to approximately US$510,000, US$581,000 and US$588,000 respectively, and Camex LLC's outstanding commitment in respect of the investment in Kores as at 31 December 2007, 2008 and 2009 was approximately US$290,000 (approximately MNT340 million), US$219,000 (approximately MNT278 million) and US$212,000 (approximately MNT304 million) respectively. Camex LLC received a letter from the joint venture partner dated 14 January 2010 confirming that it is committed to give continuous support to Kores and the exploration project of Kores and it will not request for return of the exploration licences.

33. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Save as disclosed elsewhere in this Financial Information, the following transactions were carried out by Camex LLC Group with related parties:

	Year ended 31 December		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Management fee received from a related company *(note (i))*	–	27,497	11,672
Interest income received from a related company *(note (i))*	–	1,249	–
Management fee paid to a related company *(note (i))*	4,143	2,130	–
Rental for office premises paid to a related company *(note (i))*	3,866	14,101	17,190
Acquisition of exploration licences from a shareholder	275,179	–	–

Notes:

(i) These companies are related to Camex LLC Group by way of common beneficial owners.

(ii) These transactions were entered into in the ordinary course of business with reference to the terms negotiated between Camex LLC Group and the related parties.

(b) Key management personnel compensation

	Year ended 31 December		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Short-term employee benefits	59,980	77,290	238,186
Post employment benefits	11,397	9,275	7,939
	71,377	86,565	246,125

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

Camex LLC Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and its investment activities. The financial risks include market risk (including currency risk and interest risk), credit risk and liquidity risk. Camex LLC Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. Risk management is carried out by key management under the policies approved by the board of directors. Camex LLC Group does not have written risk management policies. However, the directors and senior management of Camex LLC Group meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks.

(a) Categories of financial assets and liabilities

Financial assets

	Camex LLC Group As at 31 December		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Loans and receivables			
Amounts due from minority shareholders	3,492	153,492	3,492
Other receivables	46,335	65,237	33,796
Cash and cash equivalents	1,371,961	246,513	16,071
	1,421,788	465,242	53,359

	Camex LLC As at 31 December		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Loans and receivables			
Amounts due from related parties	3,492	153,492	3,492
Other receivables	25,661	18,636	28,088
Cash and cash equivalents	865,446	61,277	14,907
	894,599	233,405	46,487

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

(a) **Categories of financial assets and liabilities** *(Continued)*

Financial liabilities

	Camex LLC Group		
	As at 31 December		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Financial liabilities at amortised cost			
Amount due to a director	2,486,389	3,062,492	4,415,702
Amount due to a minority shareholder	74,171	32,856	–
Amount due to the immediate holding company	3,611,448	6,179,043	6,703,925
Other payables and accruals	247,463	208,476	309,025
	6,419,471	9,482,867	11,428,652

	Camex LLC		
	As at 31 December		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Financial liabilities at amortised cost			
Amount due to a director	2,486,389	3,062,492	4,415,702
Amount due to the immediate holding company	3,611,448	6,179,043	6,703,925
Other payables and accruals	211,894	73,312	251,995
	6,309,731	9,314,847	11,371,622

(b) **Financial risk management**

Market risk – Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Camex LLC Group's exposures to currency risk mainly arise from the current accounts with related parties denominated in US$ and from its purchases of property, plant and equipment and expenditures on exploration and evaluation activities, part of which are denominated in US$. Camex LLC Group has not entered into any derivate instruments to hedge the foreign exchange exposures, however, the management continuously monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Market risk – Foreign currency risk *(Continued)*

Financial assets and liabilities denominated in US$, which are translated into MNT at the closing rate, are summarised as follows:

	Camex LLC Group		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Denominated in US$			
Amounts due from related parties	3,492	3,492	3,492
Other receivables	25,661	20,342	28,147
Cash and cash equivalents	864,369	33,315	13,474
Amounts due to related parties	(6,082,145)	(9,178,972)	(11,132,009)
Other payables and accruals	(211,148)	(48,279)	(54,469)
Net exposure	(5,399,771)	(9,170,102)	(11,141,365)

	Camex LLC		
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
Denominated in US$			
Amounts due from related parties	31,918	31,918	3,492
Other receivables	25,661	18,636	22,792
Cash and cash equivalents	860,672	33,030	13,164
Amounts due to related parties	(6,082,145)	(9,178,972)	(11,132,009)
Other payables and accruals	(211,148)	(48,279)	(54,469)
Net exposure	(5,375,042)	(9,143,667)	(11,147,030)

The following table illustrates the sensitivity of the Camex LLC Group's and Camex LLC's profit/(loss) after tax during the Relevant Periods in regards to a 5%, 5% and 10% depreciation in MNT against US$ as at 31 December 2007, 2008 and 2009 respectively. These rates are the rates used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Market risk – Foreign currency risk *(Continued)*

The sensitivity analysis of Camex LLC Group's and Camex LLC's exposure to foreign currency risk at the reporting date has been determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year.

		Camex LLC Group	
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
	– 5%	– 5%	– 10%
Decrease in profit/Increase in loss after tax and decrease in retained profit	269,990	458,507	1,114,136

		Camex LLC	
	2007	**2008**	**2009**
	MNT'000	*MNT'000*	*MNT'000*
	– 5%	*– 5%*	*– 10%*
Increase in loss after tax and accumulated losses	268,752	457,183	1,114,703

Market risk – Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Camex LLC Group does not have significant exposure to interest rate risk as it has no significant interest-bearing assets and liabilities and Camex LLC Group's income, expenses and operating cash flows are substantially independent of changes in market interest rates.

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instruments and cause as a financial loss to Camex LLC Group. Camex LLC Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statements of financial position. In the option of the directors, Camex LLC Group's and Camex LLC's exposure to credit risk is insignificant.

In order to minimise the credit risk, the management compiles the credit and risk management policies, to approve credit limits and to determine any debt recovery action on those delinquent receivables. In addition, Camex LLC Group reviews the recoverable amount for each individual receivable at each reporting dates to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the board of director considers that Camex LLC Group's credit risk is effectively controlled and significantly reduced. Credit risk on cash at banks is mitigated as cash is deposited in banks of high credit rating.

None of the Camex LLC Group's and Camex LLC's financial assets are secured by collateral or other credit enhancements except as disclosed in note 22.

The credit policy has been followed by Camex LLC Group during the Relevant Periods and is considered to have been effective in limiting Camex LLC Group's and Camex LLC's exposure to credit risk to a decisive level.

Liquidity risk

Liquidity risk relates to the risk that Camex LLC Group will not be able to meet its obligations associated with its financial liabilities. Camex LLC Group is exposed to liquidity risk in respect of settlement of its financing obligations, and also in respect of its cash flow management. Camex LLC Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

Camex LLC had capital deficiency of MNT1,027,212,000, MNT1,916,568,000 and MNT3,342,949,000 as at 31 December 2007, 2008 and 2009 respectively, and Camex LLC Group had net current liabilities of MNT4,974,328,000, MNT9,007,855,000 and MNT11,373,275,000 as at 31 December 2007, 2008 and 2009 respectively. Camex LLC Group and Camex LLC are able to maintain its liquidity by obtaining continuing financial support from the shareholders.

The liquidity policies have been followed by Camex LLC Group during the Relevant Periods and are considered to have been effective in managing liquidity risks.

The maturity profile of the Camex LLC Group's and Camex LLC's financial liabilities as at each of the reporting dates, based on the contracted undiscounted payments, was as follows:

34. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

(b) Financial risk management *(Continued)*

Liquidity risk *(Continued)*

Camex LLC Group

	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand	Over one year
	MNT'000	*MNT'000*	*MNT'000*	*MNT'000*
At 31 December 2007				
Amount due to a director	2,486,389	2,486,389	2,486,389	–
Amount due to a minority shareholder	74,171	74,171	74,171	–
Amount due to the immediate holding company	3,611,448	3,611,448	3,611,448	–
Other payables and accruals	247,463	247,463	247,463	–
	6,419,471	6,419,471	6,419,471	–
At 31 December 2008				
Amount due to a director	3,062,492	3,062,492	3,062,492	–
Amount due to a minority shareholder	32,856	32,856	32,856	–
Amount due to the immediate holding company	6,179,043	6,179,043	6,179,043	–
Other payables and accruals	208,476	208,476	208,476	–
	9,482,867	9,482,867	9,482,867	–
At 31 December 2009				
Amount due to a director	4,415,702	4,415,702	4,415,702	–
Amount due to the immediate holding company	6,703,925	6,703,925	6,703,925	–
Other payables and accruals	309,025	309,025	309,025	–
	11,428,652	11,428,652	11,428,652	–

34. **FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS** *(Continued)*

(b) **Financial risk management** *(Continued)*

Liquidity risk *(Continued)*

Camex LLC

	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand	Over one year
	MNT'000	*MNT'000*	*MNT'000*	*MNT'000*
At 31 December 2007				
Amount due to a director	2,486,389	2,486,389	2,486,389	–
Amount due to the immediate holding company	3,611,448	3,611,448	3,611,448	–
Other payables and accruals	211,894	211,894	211,894	–
	6,309,731	6,309,731	6,309,731	–
At 31 December 2008				
Amount due to a director	3,062,492	3,062,492	3,062,492	–
Amount due to the immediate holding company	6,179,043	6,179,043	6,179,043	–
Other payables and accruals	73,312	73,312	73,312	–
	9,314,847	9,314,847	9,314,847	–
At 31 December 2009				
Amount due to a director	4,415,702	4,415,702	4,415,702	–
Amount due to the immediate holding company	6,703,925	6,703,925	6,703,925	–
Other payables and accruals	251,995	251,995	251,995	–
	11,371,622	11,371,622	11,371,622	–

(c) **Fair value estimation**

The fair values of Camex LLC Group's and Camex LLC's financial asset and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

35. CAPITAL MANAGEMENT

Camex LLC Group's primary objectives in managing capital include:

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

(ii) To support Camex LLC Group's stability and growth; and

(iii) To provide capital for the purpose of strengthening Camex LLC Group's risk management capability.

Camex LLC Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of Camex LLC Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Camex LLC Group currently does not adopt any formal dividend policy. Management regards total equity and the continuing financial support from shareholders as capital.

Camex LLC had capital deficiency of MNT1,027,212,000, MNT1,916,568,000 and MNT3,342,949,000 as at 31 December 2007, 2008 and 2009 respectively, and Camex LLC Group had net current liabilities of MNT4,974,328,000, MNT9,007,855,000 and MNT11,373,275,000 as at 31 December 2007, 2008 and 2009 respectively. To safeguard the ability of Camex LLC and Camex LLC Group to meet in full its financial obligation and yet to minimise cost of borrowing, Camex LLC has sought financial support from the shareholders.

36. SUBSEQUENT EVENTS

No significant events have taken place within Camex LLC Group subsequent to 31 December 2009.

37. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Camex LLC or any of its subsidiaries in respect of any period subsequent to 31 December 2009.

Yours faithfully,

Grant Thornton
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

3.2. MANAGEMENT DISCUSSION AND ANALYSIS OF CAMEX LLC GROUP

For the year ended 31 December 2007

Results and financial position

Camex LLC Group principally operates in Mongolia and engages in the business of mining and exploration of mineral resources. Camex LLC Group has not commenced mining operation and, therefore, it did not generate any revenue or incur costs for sales for the year ended 31 December 2007.

For the year ended 31 December 2007, Camex LLC Group incurred other operating expenses in the amount of approximately MNT539 million which consists of geological research and feasibility studies conducted for a steel melting project amounting to approximately MNT539 million.

Administrative expenses of Camex LLC Group for the year ended 31 December 2007 amounted to MNT481 million. It mainly include staff costs of about MNT151 million, property rental of approximately MNT15 million, net depreciation charges of about MNT17 million, travelling expenses of about MNT57 million, legal and professional fees of approximately MNT119 million and other general expenses of about MNT122 million which mainly comprised electricity, printing and telephone charges.

More legal and professional fees were incurred during the year ended 31 December 2007 which is mainly attributable to the professional services rendered in relation to the set up of Kores and the acquisition of 60% equity interest in TNE, such as financial and legal due diligence work and preparation of legal documents for the transactions. Camex LLC Group recorded a profit of approximately MNT113,950 million for the year ended 31 December 2007 which is principally contributed by the negative goodwill in capital nature, arising from the acquisition of 60% equity interest in TNE from a third party, amounting to approximately MNT114,959 million. No income tax has been provided as Camex LLC Group did not derive any assessable profits arising in Mongolia or other countries during the year ended 31 December 2007. As at 31 December 2007, the audited net assets of Camex LLC Group was approximately MNT190,555 million.

Capital structure, liquidity, financial resources

As at 31 December 2007, Camex LLC Group held cash and bank balances of approximately MNT1,372 million and the current ratio was about 0.23.

Camex LLC Group was largely financed by the amount due to a director and the immediate holding company totaling approximately MNT6,098 million as at 31 December 2007, which were unsecured, non-interest bearing and repayable on demand.

The gearing ratio (defined as total bank borrowings over equity) of Camex LLC Group was nil as at 31 December 2007.

Treasury policies, exchange risk and hedging

Except for the purchases of property, plant and equipment and expenditures on exploration and evaluation activities, part of which are denominated in United Stated Dollars, Camex LLC Group did not have any exposure to fluctuations in exchange rates or any related hedges as at 31 December 2007. Camex LLC Group also adopted a conservative treasury policy to minimize the foreign exchange risks.

Charges on assets

As at 31 December 2007, Camex LLC Group had no pledged assets.

Contingent liabilities

As at 31 December 2007, Camex LLC Group did not have any significant contingent liabilities.

Significant investments, material acquisitions and disposals

Save for the acquisition of 60% and 20% equity interest in TNE in February 2007 and June 2007 respectively at a total consideration of approximately USD1,032,000, Camex LLC Group did not undertake any significant investment or have any material acquisition or disposal of any subsidiary, associate or joint venture during the year ended 31 December 2007.

Employees and remuneration policy

Camex LLC Group has an average 28 employees during the year and the total remuneration paid was approximately MNT187 million. Employee remuneration packages were maintained at competitive levels.

In order to retain and attract high caliber executives and employees, Camex LLC Group rewards its employees according to prevailing market practices, employees' individual experience and performance are reviewed regularly.

Future plans and prospects

Camex LLC Group would continue to allocate resources and investments for further development of the natural resources and mining business.

For the year ended 31 December 2008

Results and financial position

Camex LLC Group principally operates in Mongolia and engages in the business of mining and exploration of mineral resources. Camex LLC Group has not commenced mining operation and, therefore, it did not generate any revenue or incur costs for sales for the year ended 31 December 2008.

Administrative expenses of Camex LLC Group for the year ended 31 December 2008 amounted to MNT1,061 million. It mainly include staff costs of about MNT219 million, property rental of approximately MNT34 million, net depreciation charges of about MNT30 million, travelling expenses of about MNT68 million, legal and professional fees of approximately MNT34 million, exchange loss of approximately MNT502 million and other general expenses of about MNT174 million which mainly comprised electricity, printing and telephone charges.

Administrative expenses increased by 120.6% to MNT1,061 million in 2008 from MNT481 million in 2007. The increment is primarily attributable to i) increased staff costs due to the recruitment of senior management in early 2008 to cope with the expansion in operations, and ii) increased rental expense due to provision of staff accommodation to those senior management; iii) exchange loss arising from the translation of fund transferred from Camex Pte and settlement of denominated in USD as a resulted of devaluation of Mongolian Tugrik against USD near the end of 2008; and offset by the reduction of legal and professional fees.

Camex LLC Group recorded a net loss of approximately MNT1,031 million for the year ended 31 December 2008. No income tax has been provided as Camex LLC Group did not derive any assessable profits arising in Mongolia or other countries during the year ended 31 December 2008. As at 31 December 2008, the audited net assets of Camex LLC Group was approximately MNT189,524 million.

Capital structure, liquidity, financial resources

As at 31 December 2008, Camex LLC Group held cash and bank balances of approximately MNT247 million and the current ratio was about 0.05.

Camex LLC Group was largely financed by the amount due to a director and the immediate holding company totaling approximately MNT9,242 million as at 31 December 2008, which were unsecured, non-interest bearing and repayable on demand.

The gearing ratio (defined as total bank borrowings over equity) of Camex LLC Group was nil as at 31 December 2008.

Treasury policies, exchange risk and hedging

Except for the purchases of property, plant and equipment and expenditures on exploration and evaluation activities, part of which are denominated in United Stated Dollars, and the fund transferred from Camex Pte, which is denominated in United Stated Dollars, Camex LLC Group did not have any exposure to fluctuations in exchange rates or any related hedges as at 31 December 2008. Camex LLC Group also adopted a conservative treasury policy to minimize the foreign exchange risks.

Charges on assets

As at 31 December 2008, Camex LLC Group had no pledged assets.

Contingent liabilities

As at 31 December 2008, Camex LLC Group did not have any significant contingent liabilities.

Significant investments, material acquisitions and disposals

Other than the investment in 80% equity interest in TNE, Camex LLC Group did not undertake any significant investment or have any material acquisition or disposal of any subsidiary, associate or joint venture during the year ended 31 December 2008.

Employees and remuneration policy

Camex LLC Group has an average 34 employees during the year and the total remuneration paid was approximately MNT343 million. Employee remuneration packages were maintained at competitive levels. The average number of administrative staff remained fairly constant during 2008 and 2007 (2008: 23 vs. 2007: 22); however the monthly wages per headcount increased by about 38.6% for 2008 comparing to 2007 mainly due to the recruitment of higher paid senior management.

In order to retain and attract high caliber executives and employees, Camex LLC Group rewards its employees according to prevailing market practices, employees' individual experience and performance are reviewed regularly.

Future plans and prospects

Camex LLC Group would continue to allocate resources and investments for further development of the natural resources and mining business.

For the year ended 31 December 2009

Results and financial position

Camex LLC Group principally operates in Mongolia and engages in the business of mining and exploration of mineral resources. Camex LLC Group has not commenced mining operation and, therefore, it did not generate any revenue or incur costs for sales for the year ended 31 December 2009.

Administrative expenses of Camex LLC Group for the year ended 31 December 2009 amounted to MNT1,515 million. It mainly include staff costs of about MNT369 million, property rental of approximately MNT48 million, net depreciation charges of about MNT21 million, travelling expenses of about MNT74 million, legal and professional fees of approximately MNT17 million, exchange loss of approximately MNT830 million and other general expenses of about MNT156 million which mainly comprised electricity, printing and telephone charges.

Administrative expenses increased by 42.8% to MNT1,515 million in 2009 from MNT1,061 million in 2008. The increment is primarily attributable to i) increase in staff costs due to the remuneration to a director of Camex LLC since July 2009 at US$20,000 per month; and ii) exchange loss arising from the translation of fund transferred from Camex Pte and the settlement of purchaser which are denominated in USD as a result of devaluation of Mongolian Tugrik against USD during the year.

Camex LLC Group recorded a net loss of approximately MNT1,500 million for the year ended 31 December 2009. No income tax has been provided as Camex LLC Group did not derive any assessable profits arising in Mongolia or other countries in 2009. As at 31 December 2009, the audited net assets of Camex LLC Group was approximately MNT187,616 million.

Capital structure, liquidity, financial resources

As at 31 December 2009, Camex LLC Group held cash and bank balances of approximately MNT16 million and the current ratio was about 0.01.

Camex LLC Group was largely financed by the amount due to a director and the immediate holding company totalling approximately MNT11,120 million as at 31 December 2009, which were unsecured, non-interest bearing and repayable on demand.

The gearing ratio (defined as total bank borrowings over equity) of Camex LLC Group was nil as at 31 December 2009.

Treasury policies, exchange risk and hedging

Except for the purchases of property, plant and equipment and expenditures on exploration and evaluation activities, part of which are denominated in United Stated Dollars, and the fund transferred from Camex Pte which is denominated in United Stated Dollars. Camex LLC Group has any exposure to fluctuations in exchange rates or had any related hedges as at 31 December 2009. Camex LLC Group also adopted a conservative treasury policy to minimize the foreign exchange risks.

Charges on assets

As at 31 December 2009, Camex LLC Group had no pledged assets.

Contingent liabilities

As at 31 December 2009, Camex LLC Group did not have any significant contingent liabilities.

Significant investments, material acquisitions and disposals

Save for the acquisition of 20% equity interest in TNE at a consideration of approximately USD284,000 in November 2009, Camex LLC Group did not undertake any significant investment or have any material acquisition or disposal of any subsidiary, associate or joint venture during the year ended 31 December 2009.

Employees and remuneration policy

Camex LLC Group has an average 32 employees during the year and the total remuneration paid was approximately MNT480 million. Employee remuneration packages were maintained at competitive levels.

In order to retain and attract high caliber executives and employees, Camex LLC Group rewards its employees according to prevailing market practices, employees' individual experience and performance are reviewed regularly.

Future plans and prospects

Camex LLC Group will continue to allocate resources and investments for further development of the natural resources and mining business. Camex LLC Group plans to maximise the coal production and improve its production efficiency by utilising advanced mining equipments and technologies. In order to secure stable and long-term demand from customers, Camex LLC Group plans to enter into memorandum of understanding with potential customers for the supply of coal, balance the coal sales by pursuing both long-term supply contracts and sales in the spot market to maintain the flexibility in capturing market opportunities, diversify and improving the quality of products to meet the needs of its customers, and cultivate and maintain a stable and loyal customer base.

In addition, Camex LLC Group will continue to seek growth opportunities in coal mining business and plan to enter into gold and copper mining where the right opportunity arises.

I. UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

(A) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

The unaudited pro forma consolidated statement of financial position of the Enlarged Group has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the financial impact of the Acquisition as if the Acquisition had taken place on 30 September 2009.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group has been prepared based on the unaudited consolidated statement of financial position of the Group as at 30 September 2009, which has been extracted from the published unaudited interim financial report of the Group for the six months ended 30 September 2009, after giving effect to the pro forma adjustments as summarised in the accompany notes that are directly attributable to the Acquisition and not relating to future events or decisions, and factually supportable.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is for illustrative purpose only and is based on a number of assumptions, estimates and uncertainties. Because of its hypothetical nature, it may not give a true picture of the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 30 September 2009 or to predict the future financial position of the Enlarged Group upon completion of the Acquisition.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group should be read in conjunction with the historical financial information of the Group as set out in Appendix I and other financial information included elsewhere in this Circular.

(A) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP *(Continued)*

	The Group as at 30 September 2009 *HK$'000* *Note 1*	The Target Group *HK$'000* *Note 4(i)*	*Notes*	Other pro forma adjustments *HK$'000*	Pro forma Enlarged Group as at 30 September 2009 *HK$'000*
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	49,885	13,122			63,007
Prepaid land lease payments	143	736			879
Retention receivables	10,964	–			10,964
Pledged bank deposit	5,000	–			5,000
Exploration and evaluation assets	–	1,410,001	*4*	1,391,059	2,801,060
Other intangible assets	–	23			23
Other prepayments	–	3,379			3,379
	65,992	1,427,261			2,884,312
Current assets					
Inventories	6,776	–			6,776
Amounts due from customers of contract works	240,699	–			240,699
Trade and other receivables, prepayments and deposits	69,036	287			69,323
Amounts due from related parties	–	22,934			22,934
Tax recoverable	539	–			539
Pledged bank deposits	27,351	–			27,351
Cash and cash equivalents	49,174	240	*2(i)*	(200,000)	324,614
			3	475,200	
	393,575	23,461			692,236
Current liabilities					
Trade and other payables	55,811	1,697	*4(iv)*	10,000	67,508
Amounts due to related parties	–	23,864			23,864
Borrowings	7,334	–			7,334
	63,145	25,561			98,706
Net current assets/(liabilities)	330,430	(2,100)			593,530
Total assets less current liabilities	396,422	1,425,161			3,477,842

(A) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP *(Continued)*

	The Group as at 30 September 2009	The Target Group		Other pro forma adjustments	Pro forma Enlarged Group as at 30 September 2009
	HK$'000	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*
	Note 1	*Note 4(i)*			
Non-current liabilities					
Government subsidies	–	6,402			6,402
Borrowings	15,677	–			15,677
Promissory note	–	–	*2(ii)*	284,156	284,156
Convertible note					
– liability component	–	–	*2(iv)*	492,968	492,968
Derivative financial instrument	–	–	*2(iv)*	37,171	37,171
Deferred tax liabilities	3,684	346,092	*4*	347,764	697,540
	19,361	352,494			1,533,914
Net assets	377,061	1,072,667			1,943,928
EQUITY					
Share capital	40,124	8	*2(iii)*	98,500	338,624
			3	200,000	
			5	(8)	
Share premium	207,394	1,215,278	*2(iii)*	591,000	1,073,594
			3	280,000	
			3	(4,800)	
			5	(1,215,278)	
Retained profits/(Accumulated losses)	101,665	(701,250)	*4*	285,500	387,165
			5	701,250	
Convertible note – equity component	–	–	*2(iv)*	116,667	116,667
Other reserves	27,595	558,631	*5*	(558,631)	27,595
Equity attributable to owners of the Company	376,778	1,072,667			1,943,645
Minority interests	283	–			283
Total equity	377,061	1,072,667			1,943,928

(A) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP *(Continued)*

Notes:

1. The amounts have been extracted without adjustment from the interim report of the Group for the period ended 30 September 2009.

2. Pursuant to the Acquisition Agreement, the Vendors conditionally agreed to sell and the Group conditionally agreed to purchase the entire issued share capital of the Target Company at the consideration of HK$1,937.5 million which is to be satisfied in the following manners:

	HK$'000
Cash *(note (i))*	200,000
Issue of Promissory Note *(note (ii))*	350,000
Issue of 1,970 million Consideration Shares *(note (iii))*	433,400
Issue of Convertible Note *(note (iv))*	954,100
	1,937,500

The fair value of the consideration at Completion as if the Acquisition was completed on 30 September 2009 is as follows:

	HK$'000
Cash *(note (i))*	200,000
Issue of Promissory Note *(note (ii))*	284,156
Issue of 1,970 million Consideration Shares *(note (iii))*	689,500
Issue of Convertible Note *(note (iv))*	646,806
	1,820,462

(i) According to the Acquisition Agreement, a bank draft of HK$200.0 million is to be drawn upon Completion.

(ii) According to the Acquisition Agreement, the Promissory Note with the principal amount of HK$350.0 million is to be issued by the Company upon Completion. The Promissory Note is non-interest bearing and will mature in two years from the date of issue of the Promissory Note. Accordingly, the Promissory Note is classified as a non-current liability.

The valuation of the Promissory Note was carried out by Asset Appraisal Limited, an independent firm of professional qualified valuers. The estimated fair value of the Promissory Note as at 30 September 2009 is approximately HK$284,156,000. The fair value of the Promissory Note will have to be reassessed as at the date of Completion which may be different from that presented above.

(A) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP *(Continued)*

Notes: (Continued)

2. *(Continued)*

(iii) According to the Acquisition Agreement, the 1,970 million Consideration Shares is to be issued by the Company at HK$0.22 per share upon Completion. Based on the published market price of the Company on 30 September 2009 of HK$0.35 per share, the estimated fair value of the Consideration Shares as at 30 September 2009 is approximately HK$689.5 million. The fair value of the Consideration Shares will have to be reassessed as at the date of Completion which may be different from that presented above.

The par value of the Consideration Shares is HK$0.05 per share and thus the issue of the Consideration Shares at the fair value of HK$0.35 per share results in the increase in share capital and share premium account of the Company by HK$98,500,000 and HK$591,000,000 respectively.

(iv) According to the Acquisition Agreement, the Convertible Note with the principal amount of HK$954.1 million is to be issued by the Company upon Completion. The Convertible Note is non-interest bearing and will mature on the fifth anniversary of the date of issue of the Convertible Note. The Company has the right on the first maturity date to extend the maturity date in respect of the outstanding note amount for another five years (the "Extension Option"). The Convertible Note is convertible at the initial conversion price of HK$0.22 per share (subject to adjustment) during the period from the issue date to the maturity date. The Convertible Note is classified as a non-current liability.

The valuation of the Convertible Note was carried out by Asset Appraisal Limited, an independent firm of professionally qualified valuers. The estimated fair value of the Convertible Notes as at 30 September 2009 is approximately HK$646,806,000 which comprise the liability component of approximately HK$492,968,000, the equity component of approximately HK$116,667,000 and the fair value of the Extension Option of HK$37,171,000. Based on the preliminary assessment by the management, the Extension Option is not closely related to the Convertible Note and accordingly, it is separately accounted for in this pro forma financial information.

On Completion, the fair value of the Convertible Note will have to be reassessed as at the date of Completion which may be different from that presented above.

(A) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP *(Continued)*

Notes: (Continued)

3. As one of the conditions to Completion, the Company is required to raise from equity market not less than HK$400 million but not more than HK$480 million by way of placing of new shares of the Company. On 24 December 2009, the Company entered into an agreement with a placing agent regarding the placing of not less than 3,800 million and not more than 4,000 million new shares of the Company at HK$0.12 per share. The adjustment reflects the effect of placing, assuming 4,000 million new shares of the Company at HK$0.12 per share were issued upon Completion. As a result of the placing, the share capital and share premium account of the Company would increase by HK$200,000,000 and HK$280,000,000 respectively. The estimated transaction costs incidental to the placing is HK$4.8 million, which is dealt with in the share premium account of the Company. Net proceed generated from the placing is thereby estimated to be HK$475,200,000.

4. The adjustment reflects the effect of Acquisition on the consolidated statement of financial position of the Group as if the Acquisition had taken place on 30 September 2009. The Acquisition is accounted for using purchase method of accounting under which the cost of the Acquisition is allocated to the fair value of the identifiable assets and liabilities of the Target Group. The excess of interests in the Target Group acquired over the cost of the Acquisition (i.e. negative goodwill) is recognised immediately in the consolidated income statement.

	Carrying amount on the date of Acquisition	Fair value adjustment	Fair value on the date of Acquisition
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	13,122	–	13,122
Prepaid land lease payments	736	–	736
Exploration and evaluation assets			
– Major Licences *(note (ii))*	1,399,121	1,391,059	2,790,180
– Other Licences	10,880	–	10,880
Other intangible assets	23	–	23
Other prepayments	3,379	–	3,379
Trade and other receivables, prepayments and deposits	287	–	287
Amounts due from related parties	22,934	–	22,934
Cash and cash equivalents	240	–	240
Trade and other payables	(1,697)	–	(1,697)
Amounts due to related parties	(23,864)	–	(23,864)
Government subsidies	(6,402)	–	(6,402)
Deferred tax liabilities	(346,092)	(347,764)	(693,856)
Net assets acquired			2,115,962
Total cost of the Acquisition *(note (iv))*			1,830,462
Excess over the cost of business combination *(note (v))*			285,500

(A) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP *(Continued)*

Notes: (Continued)

4. *(Continued)*

(i) The carrying amount of the identifiable assets and liabilities of the Target Group represents the consolidated statement of financial position of the Target Group as at 31 December 2009 which has been extracted without adjustment from the Accountants' Report on the Target Company set out in Section (1) of Appendix II to the Circular. For the purpose of the unaudited pro forma consolidated statement of financial position, the consolidated statement of financial position of the Target Group which is presented in United State dollars has been translated into Hong Kong dollars at an exchange rate of US$1 = HK$7.7505.

(ii) The fair value of the Major Licences as at 30 September 2009 of approximately US$360 million (equivalent to approximately HK$2,790 million) was determined with reference to the valuation on the underlying mining right of the Major Licences as at 31 December 2009 carried out by BMI Appraisals, an independent firm of qualified valuers. Deferred tax liabilities arising from the fair value adjustment to the Major Licences amounted to HK$348 million.

(iii) The directors of the Company have provisionally assessed that the carrying amounts of other identifiable assets and liabilities of the Target Group approximate their fair values on Acquisition.

(iv) The total cost of the Acquisition is estimated as follows:

	HK$'000
Fair value of the consideration *(note 2)*	1,820,462
Estimated transaction costs incidental to the Acquisition	10,000
	1,830,462

The estimated transaction costs for the Acquisition of approximately HK$10,000,000 mainly comprise financial adviser fees, legal fees, and remunerations to valuers and reporting accountants. This adjustment has no continuing effect on the Enlarged Group's financial statements in subsequent years.

(v) On Completion, the fair values of the net identifiable assets and liabilities of the Target Group, the Promissory Note, the Consideration Shares and the Convertible Note will have to be reassessed. As a result of the re-assessment, the amount of goodwill may be different from that estimated as stated above for the purpose of preparing this unaudited pro forma financial information.

(vi) Pursuant to the Acquisition Agreement, the Company is required to issue the Compensation Note to Best State (or its nominee) in case the fair value of Camex LLC Group excluding TNE or the fair value of the Other Licences as shown in the valuation report to be submitted in eight months after the completion of the Acquisition is not less than HK$1,550 million. The issue of the Compensation Note which is a contingent consideration would result in adjustments to the cost of the Acquisition, and thus the amount of goodwill may also be adjusted. Since it is not considered probable that the fair value of Camex LLC Group excluding TNE or the fair value of the Other Licences will be amounted to HK$1,550 million or above, the Compensation Note is not accounted for the purpose of the preparation of this unaudited pro forma consolidated statement of financial position of the Enlarged Group.

(A) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP *(Continued)*

Notes: (Continued)

4. *(Continued)*

(vii) HKFRS 3 Business Combinations (2008 Revised) issued by the Hong Kong Institute of Certified Public Accountants is applicable in reporting periods beginning on or after 1 July 2009 which introduces material changes in accounting for business combinations including recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interests) in the acquiree. On completion, the Acquisition will be accounted for using this revised HKFRS 3 and accounting impact arising would be different from the financial effect presented in this pro forma financial information. Such differences mainly include:

(a) Contingent consideration

Under the existing HFKRS 3, if a business combination agreement provides for an adjustment to the cost of the business combination contingent on future event, the acquirer is required to include the amount of the adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably. If the future events do not occur or the estimate needs to be revised, the cost of the business combination is to be adjusted accordingly. Such adjustment is not included in the cost of the combination at the time of initially accounting for the combination if it either is not probable or cannot be measured reliably. If that adjustment subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the combination.

Under the revised HKFRS 3, the consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement and the acquirer shall recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree. Changes in fair value of contingent consideration resulted from additional information obtained after the acquisition about facts and circumstances that existed at the acquisition date are regarded as measurement period adjustments. The acquirer recognises additional assets or liabilities by means of adjusting the amount of goodwill. In addition, measurement period shall not exceed one year from the acquisition date. However, changes resulting from events after the acquisition date are not measurement period adjustments and shall not be accounted for by adjusting the goodwill on the acquisition date. Instead, contingent consideration classified as equity is not subsequently remeasured and settlement is accounted for within equity, whereas contingent consideration classified as an asset or a liability that (i) is financial instrument and is within the scope of HKAS 39 shall be measured at fair value, with any resulting gain or loss recognised either in profit or loss or in other comprehensive income in accordance with that HKFRS, (ii) is not within the scope of HKAS 39 shall be accounted for in accordance with HKAS 37 or other HKFRSs as appropriate.

(b) Acquisition cost

Under the existing HFKRS 3, costs directly attributable to the business combination is included as part of the cost of acquisition. However, under the revised HKFRS 3, transaction costs should be expensed.

5. The adjustment represents the eliminations of the share capital of the Target Company together with the pre-acquisition reserves of the Target Group.

(B) UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP

The unaudited pro forma consolidated income statement of the Enlarged Group has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the financial impact of the Acquisition as if the Acquisition had taken place at the commencement of the financial year ended 31 March 2009.

The unaudited pro forma consolidated income statement of the Enlarged Group is based upon the audited consolidated income statement of the Group for the financial year ended 31 March 2009, which has been extracted from the published annual report of the Group for the financial year ended 31 March 2009, after giving effect to the pro forma adjustments as summarised in the accompany notes that are directly attributable to the Acquisition and not relating to future events or decisions, and factually supportable.

The unaudited pro forma consolidated income statement of the Enlarged Group is for illustrative purpose only and is based on a number of assumptions, estimates and uncertainties. Because of its hypothetical nature, it may not give a true picture of the actual financial result of the Enlarged Group that would have been attained had the Acquisition been completed at the commencement of the financial year ended 31 March 2009 or to predict the future result of the Enlarged Group.

The unaudited pro forma consolidated income statement of the Enlarged Group should be read in conjunction with the historical financial information of the Group as set out in Appendix I and other financial information included elsewhere in this Circular.

(B) UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP *(Continued)*

	The Group for the year ended 31 March 2009	The Target Group		Other pro forma adjustments	Pro forma Enlarged Group for the year ended 31 March 2009
	HK$'000	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*			
Revenue	660,870	–			660,870
Cost of sales	(591,429)	–			(591,429)
Gross profit	69,441	–			69,441
Other income and gains	7,312	529			7,841
Selling and distribution costs	(2,936)	–			(2,936)
Administrative expenses	(59,054)	(10,028)			(69,082)
Administrative expenses — share-based payment	–	(1,218,869)	5		(1,218,869)
Other operating expenses	–	(428)			(428)
Operating profit	14,763	(1,228,796)			(1,214,033)
Finance costs	(6,566)	–	3	(31,253)	(107,417)
			4	(69,598)	
Profit/(Loss) before income tax	8,197	(1,228,796)			(1,321,450)
Income tax expenses	(1,806)	–			(1,806)
Profit/(Loss) for the year	6,391	(1,228,796)			(1,323,256)
Attributable to:					
Owners of the Company	6,431	(1,228,742)		(100,851)	(1,323,162)
Minority interests	(40)	(54)			(94)
	6,391	(1,228,796)			(1,323,256)
	HK cents				*HK cents*
Earning/(Loss) per share for profit/(loss) attributable to owners of the Company			7		
– Basic	0.713				(19.255)
– Diluted	0.711				N/A

(B) UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP *(Continued)*

Notes:

1. The amounts have been extracted without adjustment from the audited consolidated financial statements of the Group for the year ended 31 March 2009.

2. The consolidated income statement of the Target Group for the year ended 31 December 2009 has been extracted without adjustment from the Accountants' Report on the Target Company set out in Section (1) of Appendix II to the Circular. For the purpose of the unaudited pro forma consolidated income statement, the consolidated income statement of the Target Group which is presented in United State dollars has been translated into Hong Kong dollars at an exchange rate of US$1 = HK$7.7734.

3. The adjustment represents the annual finance cost of the imputed interest of approximately HK$31,253,000 in respect of the Promissory Note calculated at an effective interest rate of 11.00% per annum. This adjustment has continuing effect on the financial statements of the Enlarged Group in subsequent years. The value of the Promissory Note is determined based on the valuation conducted by Asset Appraisal Limited on the Promissory Note as at 30 September 2009.

4. The adjustment represents the annual finance cost of the imputed interest of approximately HK$69,598,000 in respect of the Convertible Note calculated at an effective interest rate of 14.12% per annum. This adjustment has continuing effect on the financial statements of the Enlarged Group in subsequent years. The value of the Convertible Note is determined based on the valuation conducted by Asset Appraisal Limited on the Convertible Note as at 30 September 2009.

5. Included in the amount of administrative expenses of the Target Group is a share-based payment arising from a restructuring exercise taken place within the Target Group on 28 November 2009 amounting to US$156.8 million (equivalent to approximately HK$1,218,869,000). Such share-based payment will not occur in future financial periods.

6. For the purpose of this unaudited pro forma consolidated income statement, it is assumed that there is no change in fair value of the Extension Option as mentioned in note 2(iv) to the unaudited pro forma consolidated statement of financial position of the Enlarged Group in Section (A) since the change in value of the Extension Option cannot be predicted.

(B) UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP *(Continued)*

Notes: (Continued)

7. The calculation of the pro forma basic loss per share attributable to the owners of the Enlarged Group is based on the unaudited pro forma consolidated loss attributable to the owners of the Enlarged Group of HK$1,323,162,000 and the weighted average number of 6,871,701,000 ordinary shares, calculated as follows:

	Pro forma Enlarged Group *Number of shares ‘000*
Weighted average number of ordinary shares for the year ended 31 March 2009 extracted from published annual report of the Group for the year ended 31 March 2009	901,701
Adjustment for the 1,970 million Consideration Shares issued on 1 April 2008	1,970,000
Adjustment for the Placing Shares *(note (i))*	4,000,000
Weighted average number of ordinary shares for the purpose of calculating the pro forma basic loss per share	6,871,701

(i) The calculation of weighted average number of ordinary shares for the purpose of the pro forma basic loss per share for the Enlarged Group is based on the assumption that 4,000 million Placing Shares were issued on 1 April 2008 upon Completion.

(ii) For the purpose of calculating the pro forma diluted loss per share for the Enlarged Group, it is assumed that 2,861,586,000 Conversion Shares were issued on 1 April 2008, taking into accounts that conversion shall not result in the holder of the Convertible Note directly or indirectly control or be interested in 30% or more of the entire issued shares of the Company. There was an anti-dilutive effect from the conversion of the Convertible Note and accordingly, no diluted loss per share has been presented.

(C) UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP

The unaudited pro forma consolidated cash flow statement of the Enlarged Group has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the financial impact of the Acquisition as if the Acquisition had taken place at the commencement of the financial year ended 31 March 2009.

The unaudited pro forma consolidated cash flow statement of the Enlarged Group is based upon the audited consolidated cash flow statement of the Group for the financial year ended 31 March 2009, which has been extracted from the published annual report of the Group for the financial year ended 31 March 2009, after giving effect to the pro forma adjustments as summarised in the accompany notes that are directly attributable to the Acquisition and not relating to future events or decisions, and factually supportable.

The unaudited pro forma consolidated cash flow statement of the Enlarged Group is for illustrative purpose only and is based on a number of assumptions, estimates and uncertainties. Because of its hypothetical nature, it may not give a true picture of the actual cash flow of the Enlarged Group that would have been attained had the Acquisition been completed at the commencement of the financial year ended 31 March 2009 or to predict the future cash flow of the Enlarged Group.

The unaudited pro forma consolidated cash flow statement of the Enlarged Group should be read in conjunction with the historical financial information of the Group as set out in Appendix I and other financial information included elsewhere in this Circular.

(C) UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP *(Continued)*

	The Group for the year ended 31 March 2009 HK$'000 Note 1	The Target Group HK$'000 Note 2	Notes	Other pro forma adjustments HK$'000	Pro forma Enlarged Group for the year ended 31 March 2009 HK$'000
Cash flows from operating activities					
Profit/(Loss) before income tax	8,197	(1,228,796)	3	(31,253)	(1,321,450)
			4	(69,598)	
Adjustments for:					
Amortisation of prepaid land lease payments	358	179			537
Amortisation of other intangible assets	–	8			8
Depreciation of property, plant and equipment	9,864	117			9,981
Imputed interest on Convertible Notes	–	–	4	69,598	69,598
Imputed interest on Promissory Note	–	–	3	31,253	31,253
Interest income	(871)	(109)			(980)
Interest expenses	6,566	–			6,566
Impairment of prepayments for investment	3,184	–			3,184
Excess over the cost of business combination	(945)	–			(945)
Exchange differences	275	6,118			6,393
(Gain)/Loss on disposal of property, plant and equipment	(96)	39			(57)
Equity-settled share-based compensation	3,127	1,218,869			1,221,996
Gain on disposal of subsidiaries	(3,416)	–			(3,416)
Operating profit/(loss) before working capital changes	26,243	(3,575)			22,668
Increase in inventories	(356)	–			(356)
Change in net amounts due from/to customers of contract works	(12,809)	–			(12,809)
(Increase)/Decrease in trade and other receivables, prepayments and deposits	(40,560)	272			(40,288)
Decrease in amounts due from minority shareholders	–	925			925
Decrease in amount due from a director	–	311	5	(311)	–
Increase/(Decrease) in trade and other payables	11,696	(295)			11,401
Increase in amount due to a director	–	5,146	5	(5,146)	–
Decrease in amounts due to related parties	–	(202)	5	5,457	5,255
Cash (used in)/generated from operations	(15,786)	2,582			(13,204)
Interest paid on bank loans and other borrowings	(6,388)	–			(6,388)
Interest received	871	109			980
Income tax paid	(1,985)	–			(1,985)
Net cash (used in)/generated from operating activities	(23,288)	2,691			(20,597)

(C) UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP *(Continued)*

	The Group for the year ended 31 March 2009 *HK$'000* *Note 1*	The Target Group *HK$'000* *Note 2*	*Notes*	Other pro forma adjustments *HK$'000*	Pro forma Enlarged Group for the year ended 31 March 2009 *HK$'000*
Cash flows from investing activities					
Increase in pledged bank deposits	(3,361)	–			(3,361)
Payments to acquire property, plant and equipment	(8,874)	(925)			(9,799)
Proceeds from disposal of property, plant and equipment	882	389			1,271
Net cash outflow on business combination	(668)	–			(668)
Net cash outflow on disposal of subsidiaries	(5,601)	–			(5,601)
Decrease in prepayments	–	404			404
Payment for exploration and evaluation activities	–	(2,254)			(2,254)
Acquisition of additional interests in a subsidiary	–	(1,516)	6	(200,000)	(201,516)
Net cash used in investing activities	(17,622)	(3,902)			(221,524)
Cash flows from financing activities					
Proceeds from placing	–	–	7	475,200	475,200
Payments for repurchase of shares	(948)	–			(948)
Net borrowings raised	225,097	–			225,097
Repayment of borrowings	(279,917)	–			(279,917)
Capital element of finance lease payments	(4,621)	–			(4,621)
Interest elements of finance lease payments	(178)	–			(178)
Dividend paid	(7,432)	–			(7,432)
Net cash (used in)/generated from financing activities	(67,999)	–			407,201
Net (decrease)/increase in cash and cash equivalent	(108,909)	(1,211)		275,200	165,080
Cash and cash equivalents at beginning of financial year	172,884	1,601			174,485
Effect of foreign exchange rate changed	(218)	(148)			(366)
Cash and cash equivalents at end of financial year	63,757	242			339,199

(C) UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP *(Continued)*

Notes:

1. The amounts have been extracted without adjustment from the audited consolidated financial statements of the Group for the year ended 31 March 2009.

2. The consolidated cash flow statement of the Target Group for the year ended 31 December 2009 has been extracted without adjustment from the Accountants' Report on the Target Company set out in Section (1) of Appendix II to the Circular. For the purpose of the unaudited pro forma consolidated cash flow statement, the consolidated cash flow statement of the Target Group which is presented in United State dollars has been translated into Hong Kong dollars at an exchange rate of US$1 = HK$7.7734.

3. The adjustment represents the annual finance cost of the imputed interest of approximately HK$31,253,000 in respect of the Promissory Note calculated at an effective interest rate of 11.00% per annum. This adjustment has continuing effect on the financial statements of the Enlarged Group in subsequent years. The value of the Promissory Note is determined based on the valuation conducted by Asset Appraisal Limited on the Promissory Note as at 30 September 2009.

4. The adjustment represents the annual finance cost of the imputed interest of approximately HK$69,598,000 in respect of the Convertible Note calculated at an effective interest rate of 14.12% per annum. This adjustment has continuing effect on the financial statements of the Enlarged Group in subsequent years. The value of the Convertible Note is determined based on the valuation conducted by Asset Appraisal Limited on the Convertible Note as at 30 September 2009.

5. The adjustment represents the reallocation of related party balance upon the Completion.

6. The adjustment reflects the cash consideration of HK$200,000,000 to be paid to Sino Access upon Completion according to the Acquisition Agreement.

7. As one of the conditions to Completion, the Company is required to raise from equity market not less than HK$400 million but not more than HK$480 million by way of placing of new shares of the Company. On 24 December 2009, the Company entered into an agreement with a placing agent regarding the placing of not less than 3,800 million and not more than 4,000 million new shares of the Company at HK$0.12 per share. The adjustment reflects the effect of placing, assuming 4,000 million new shares of the Company at HK$0.12 per share were issued upon Completion. As a result of the placing, the proceed of issuing new share of HK$480,000,000 would receive and the share capital and share premium account of the Company would increase by HK$200,000,000 and HK$280,000,000 respectively. The estimated transaction costs incidental to the placing is HK$4.8 million and the net proceed generated from the placing is HK$475,200,000.

II. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report from Grant Thornton, the independent reporting accountants, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in this Appendix and prepared for the sole purpose of inclusion in this circular.

Grant Thornton
均富

Member of Grant Thornton International Ltd.

12 May 2010

The Board Directors
Ming Hing Waterworks Holdings Limited
Unit 1809-12, Telford House
16 Wan Hoi Road
Kowloon Bay
Hong Kong

Dear Sirs

We report on the unaudited pro forma financial information of Ming Hing Waterworks Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") which comprises the unaudited pro forma consolidated statement of financial position as at 30 September 2009 and the unaudited pro forma consolidated income statement and cash flow statement for the year ended 31 March 2009 (collectively referred to as the "unaudited pro forma financial information") as set out in sections (A) to (C) of Appendix III to the circular of the Company dated 12 May 2010 (the "Circular"). The unaudited pro forma financial information has been prepared by the directors of the Company for illustrative purposes only to provide information about how the proposed acquisition of the entire issued share capital of Well Delight Holdings Limited (the "Acquisition") might have affected the financial position of the Group on a pro forma basis as at 30 September 2009, and the results and cash flow of the Group on a pro forma basis for the year ended 31 March 2009. The basis of preparation of the unaudited pro forma financial information is set out in sections (A) to (C) of Appendix III to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29 of Chapter 4 of the Listing Rules on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we did not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not give any assurance or indication that any event will take place in the future and may not be indicative of

– the financial position of the Group as at 30 September 2009 or any future date; or

– the results and cash flows of the Group for the year ended 31 March 2009 or any future year/period.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully

Grant Thornton
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

The following is the text of a report from BMI Technical Consulting, an independent technical adviser, in respect of the technical report on the TNE Mine as set out in this Appendix and prepared for the sole purpose of inclusion in this circular.

Technical Report

of Tugrug Nuur Brown Coal Deposit Bayan Soum, Tuv Aimag, Mongolia

for

Ming Hing Waterworks Holdings Limited
Units 1809-1812, Telford House, 16 Wang Hoi Road
Kowloon Bay, Hong Kong

BMI Technical Consulting
Suite 11-18, 31/F., Shui On Centre,
6-8 Harbour Road, Wanchai, Hong Kong

Contact: Dr. Tony Cheng
Telephone No: 2593 9633
Email: tcheng@bmintelligence.com
Website: www.bmintelligence.com

12 May 2010

Dr. Herman Tso
Director

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1 EXECUTIVE SUMMARY

On 18 November 2009, ***BMI Technical Consulting*** *(BMITC)* was commissioned by Ming Hing Waterworks Holdings Limited *(MHWHL)* to provide a Geological Study for the Tugrug Nuur brown coal deposit. The study area is contained within four mining licenses owned by Tugrug Nuuryn Energy Company, Ltd. *(TNE)*. TNE is owned as to 100% interest by Central Asia Mineral Exploration LLC Mongolia *(CAMEX)*.

The study area is located approximately 170 km southeast of Mongolia's capital city, Ulaanbaatar. The brown coal deposit is in the Tugrug Valley and is within the administrative unit of Bayan Soum of Tuv (Central) Aimag (province). The UB-Beijing railroad is located approximately 20 km from the deposit on the eastern side. Power lines run parallel to the railroad and extend through Mongolian from Russia to China.

TNE began exploration activities at Tugrug Nuur in 2005. The level of knowledge available for *TNE*-controlled Tugrug Nuur deposit areas is now sufficient for the assessment calculation of the resource estimations presented in this report.

The Tugrug Nuur brown coal resource is contained within four *TNE*-controlled mining licenses (13533A, 15429A, 13553A, 228A) that cover 1,114 hectares.

Exploration work by *TNE* identified two main multi-bedded brown coal packages: the Upper Seam (US) and the Lower Seam (LS). These coal packages consist of one or more coal seams within a distinct stratigraphic horizon. Structural geology at Tugrug Nuur shows evidence of minor folding and faulting. Individual coal seams however, are still relatively intact.

To facilitate the estimation of resources in the Tugrug Nuur deposit, *BMITC* subdivided the two main seam packets into three seam packets (the Upper Seam (US), Middle Seam (MS), and Lower Seam (LS)) and then identified a total of 15 coal layers within those three seam packets (US1 through 8, MS1 through 4, and LS1, LS2, and LSB) across the property. *BMITC* developed geological models using Gemcom Software International's *Minex*® software. Key horizons or "surfaces" were modeled to provide the necessary limits for volume estimation. Volumes were converted to tonnages by application of a default density value of 1.30 gm/cc (based on historical Mongolian criteria) pending additional quality data acquisition.

Drilling to date has progressed to a point where an initial resource of 91.9 million tonnes of in situ coal (measured, indicated and inferred) has been identified. Calculated resources for these areas are as shown in Table 1.1. The resources identified through the current exploration program have currently been determined to a maximum depth of 76.2m.

Table 1.1

In Situ Coal Resources Summary

	In-Place Resources (Tonnes)		
ASTM Group	**Measured**	**Indicated**	**Inferred**
Non-Ranked Brown Coal	42,005,000	21,958,000	27,948,000
Total:	**91,911,000**		

The classification of resources reported above in Table 1.1 is based on the BMITC's experience, and referenced international guidelines including the JORC Code (2004 edition).

There are 811.6 hectares contained in the license area west of the fault. Based upon available geological data approximately 156.6 hectares (19.3%) are measured resources; 148.9 hectares (22.8%) are indicated resources; 241.4 hectares (29.8%) are inferred resources, and 264.7 hectares (28.1%) remain unclassified.

The resource estimations do not include assumptions concerning:

- Mining factors
- Recovery of by-products
- Estimation of deleterious elements or other non-grade variables of economic significance

At present, there is no sufficient geologic data on the western or southern portions of the licensed areas to delineate locations and extents of the coal seam sub-crops with confidence. The estimated tonnages reported above may be increased or decreased based on future data acquisitions.

Based on the current level of data available up to date, sufficient information exists to make an assessment of the property's resources.

2 INTRODUCTION AND TERMS OF REFERENCE

BMITC prepared this Geological Study at the request of *MHWHL*. The principal objective of this report is to provide *MHWHL* and the Stock Exchange of Hong Kong Limited with an independent expert report suitable for inclusion in the Circular in relation to a proposed acquisition of Well Delight Holdings Company Limited (which owns 100% interest in *TNE*).

The deposit area is named Tugrug Nuur. Tugrug Nuuryn Energy Company, Ltd. *(TNE)* holds four mining licenses covering much of the deposit area. These licenses are discussed in detail in Section 4. *CAMEX* holds a 100% interest of *TNE*.

This Geological Study utilizes data collected at Tugrug Nuur by *TNE*. Additional data has been gathered by *TNE* from previous Soviet-Mongolian government studies.

The Tugrug Nuur coal deposit is located approximately 170km southeast of Mongolia's capital city Ulaanbaatar. The deposit is in the Tugrug Valley and is within the administrative unit of Bayan Soum of Tuv (Central) Aimag (province). The Tugrug Nuur resource is contained within four *TNE*-controlled mining licenses that cover 1,114 hectares (Figure 4.1). An asphalt road and the UB-Beijing railroad are located approximately 22 km from the license area.

The exploration program at Tugrug Nuur was designed by *TNE* to bring the level of knowledge for the deposit areas to an assessment geological study level.

The qualified person responsible for this report has delegated his technical staff to inspect the Tugrug Nuur tenements and has been involved in digital database and geologic model development, and preparation of this report, but has not been involved in the design and implementation of exploration activities, the collection of coal samples for laboratory analyses, nor the processing or interpretation of geophysical data.

3 WORK PROGRAM

3.1 REPORTING STANDARD

This report has been prepared to the standard of and is considered by *BMITC* to be, a Technical Assessment Report under Valmin Code guidelines. The Valmin Code incorporates the JORC Code for reporting of Mineral Resources and Ore Reserves.

This report is not a valuation report and does not express an opinion as to the value of mineral assets. Aspects reviewed in this report do include product prices, socio-political issues and environmental considerations. However, *BMITC* does not express an opinion regarding the specific value of assets and tenements involved.

3.2 WORK PROGRAM

The work program involved two phases:

- Phase 1: review information provided, perform site visit to Tugrug Nuur located at Bayan Soum of Tuv Aimag. Discuss with *MHWHL* staff, collect and review of documents; and

- Phase 2: analyze of the provided data, write a draft report, review of additional data and finalize of the independent technical report.

3.3 STATEMENT OF BMITC INDEPENDENCE

Neither *BMITC* nor any of the Report authors have any material present or contingent interest in the outcome of this report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of *BMITC*.

BMITC's fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. Payment of that professional fee is not contingent upon the outcome of the Report.

3.4 WARRANTIES

MHWHL has represented to *BMITC* that full disclosure has been made of all material information and that, to the best of its knowledge and understanding, such information is complete, accurate and true. *BMITC* has no reason to doubt this representation.

3.5 CONSENT

BMITC consents to this Report being included in full in *MHWHL*'s application for project finance with the qualified financial institute, in the form and context in which the technical assessment is provided.

BMITC provides this consent on the basis that the technical reviews expressed in the summary and in individual sections of this Report are considered with, and not independently of, information set out in the complete Report.

3.6 EXPERIENCE

Dr. Herman C.M. Tso is a Director of BMI Technical Consulting which is located at Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong. He has over 22 years of extensive executive and site experience in civil, geotechnical and mining engineering working with consulting engineers & contractors including in Canada and Hong Kong. He is the Chartered Professional member of the Institute of Materials, Minerals & Mining (UK), as a board member in the Hong Kong branch of the Institute of Materials, Minerals & Mining. He is the professional member of the Canadian Institute of Mining, Metallurgy & Petroleum, the Minerals, Metals & Materials Society of America, the Canadian Geotechnical Society, the British Geotechnical Society and the American Geotechnical Institute. He is also a Chartered Civil Engineer and Chartered Mining Engineer.

4 PROPERTY DESCRIPTION AND LOCATION

The Tugrug Nuur coal deposit is located approximately 170km southeast of Mongolia's capital city Ulaanbaatar. The deposit is in the Tugrug Valley and is within the administrative unit of Bayan Soum of Tuv (Central) Aimag (province).

Exploration licenses are granted by the Mongolian government for a period of three years with the right to extend the period twice for three additional years each. Following a successful exploration program, an exploration license holder can apply for a mining license to any portion of the property controlled by the exploration license. A mining license is granted for a period of 30 years, with the right to extend the period twice for 20 additional years per extension.

The Tugrug Nuur deposit is contained within contiguous *TNE*-controlled licenses covering an area of approximately 1,114 hectares.

Documentation provided to *BMITC* indicates that *TNE* controls these licenses; however *BMITC* has not verified the ownership and precise location of the mining tenements.

Table 4.1

***TNE* Property Control Rights**

License 13533A	**License 15429A**	**License 13553A**	**License 228A**
Mining	Mining	Mining	Mining
11 April 2008 - 11 April 2038	22 January 2010 - 22 January 2040	15 April 2008 - 15 April 2038	22 February 2007 - 22 February 2037
143 He	396 He	563 He	11.6 He
108˚03'40" - 46˚54'20"	108˚01'25" - 46˚54'20"	108˚02'20" - 46˚54'20"	108˚02'44.2" - 46˚53'11.8"
108˚04'00" - 46˚54'20"	108˚02'20" - 46˚54'20"	108˚03'40" - 46˚54'20"	108˚02'34.8" - 46˚53'11.25"
108˚04'00" - 46˚52'30"	108˚02'20" - 46˚52'30"	108˚03'40" - 46˚53'12"	108˚02'14.99" - 46˚52'54.04"
108˚03'40" - 46˚52'30"	108˚01'25" - 46˚52'30"	108˚03'35" - 46˚53'12"	108˚02'29" - 46˚52'55.86"
108˚03'40" - 46˚53'07.47"		108˚03'15" - 46˚52'54"	
108˚03'44.25" - 46˚53'11.80"		108˚03'29" - 46˚ 52'26"	
108˚03'40" - 46˚53'11.69"		108˚03'40" - 46˚53'03"	
		108˚03'40" - 46˚52'30"	
		108˚02'20" - 46˚52'30"	

Figure 4.1 illustrates the license area in relation to the capital city of Ulaanbaatar (located in the northwest corner).

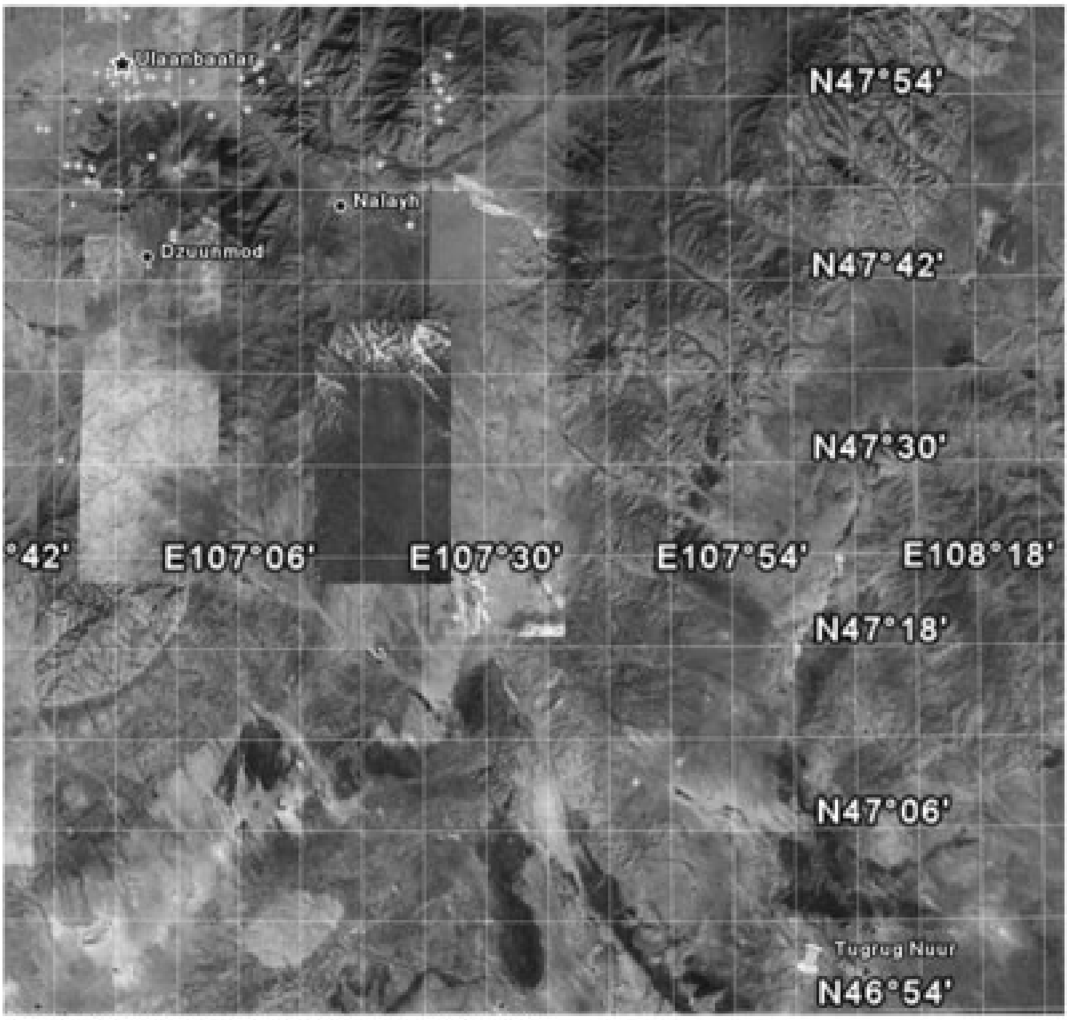

Figure 4.1: Approximate License Location Map

5 ACCESSIBILITY, CLIMATE, LOCAL RESOURCES, INFRASTRUCTURE AND PHYSIOGRAPHY

The Tugrug Nuur coal deposit is located approximately 170km southeast of Mongolia's capital city Ulaanbaatar. The deposit is in the Tugrug Valley and is within the administrative unit of Bayan Soum of the Central Aimag (province).

The climate is typical for most of Mongolia with the average temperature between -16 to -31 degrees Celsius in the winter, and +25 degrees Celsius in the summer. The average precipitation is 205-310 mm per year with most occurring during July through August. There are strong winds in the spring and autumn with the general direction from the west and northwest.

Residents in the area are nomadic livestock herders. Some are involved with the agricultural production of potatoes or vegetables. No permanent settlements exist within the deposit area. The closest permanent settlements are Bayan Soum, approximately 60km west, and Bayanjargal Soum approximately 35 km to the north of the deposit area.

An asphalt road is located between Ulaanbaatar and Zamiin- Uud and passes within 20 km of the license area.

The UB-Beijing railroad is located approximately 22 km from the deposit on the eastern side. Power lines run parallel to the railroad and extend through Mongolian from Russia to China.

The valley where the Tugrug Nuur deposit is located is rich in swamps and lakes. The areas surrounding the valley are hilly and mountainous in the west, northwest and east. In the central and southern parts some small hills exist with less relief evident. The actual project site is relatively flat with elevations ranging from 1295m to 1332m above sea level. (See Figure 7.1.1). Several intermittent streams cross the property, providing runoff (and alluvium) from these higher areas.

Tugrug Nuur Lake is in proximity to the east, and its boundaries can expand during rainy periods, often covering the surrounding areas. The topography contour map shown in Figure 7.1.1 highlights the generally flat project area. The 1300m contour and eastward approximates a low that often accumulates water during rainy periods.

6 HISTORY

Geological research work in this region began in the 1920s.

Between 1924 and 1925, the geologist Kupletskii .B.M did research work on a geological route east and southeast from Ulaanbaatar in the upper and middle parts of the Herlen River.

In 1931, Tenner D. D. studied coal samples that were found in the Tavan Suvai Valley near the Small, Large and Middle lakes.

In 1951-1952, a group headed by Bratash. B.N. executed geological mapping at a scale of 1:200000, attempting to discover the structure containing potential oil/gas in the northwest and eastern parts of the Nyalga Valley area. Their work provided a basic concept of the stratigraphy, geomorphology, and tectonics of Cretaceous age rock units in this region.

In 1963, Ivanov. B. M discovered the Maanit coal deposit.

In 1964, a group headed by Osokin. P. V and Hrapov. A. A performed additional geological mapping at a scale of 1:200000.

In 1979, geological mapping at a scale of 1:50000, executed by teachers and students of Geological Mine Faculty of Technical Institute, noticed two coal bodies called Shanagan enger and Nuurst in the Booroljuut Valley. The geologist Monkhtogoo. L continued to study the coal formations and discovered the Tsaidam Lake coal deposit. The samples of Shanagan enger and Nuurst were the surface bodies of the Tsaidam coal deposit layers.

In 1981, a group headed by geophysicist Dagvatseren. A executed a coal prospecting project to define structures containing coal. The Tsaidam Lake coal deposit was divided into three parts: north, central and south. The most promising coal potential was determined to lie in the central part of the Tsaidam Lake deposit.

In 1983, a group headed by Narantsetseg provided geophysical research work in the Tsaidam Lake deposit and in the concave steppe between Tsaidam Lake and Small Lake in order to delineate the coal structure.

Also in 1983, a group headed by geologists Monkhtogoo and Chuluun, with the advice of Dr. Bat-Erdene. De, discovered the Tugrug Lake coal deposit. Their research goal was to define the lateral coal extent, coal quantity, quality, and potential productivity. For this purpose they drilled five boreholes on a prospecting line in the right north part of the Tugrug Lake coal deposit. These boreholes are numbered 1, 2, 3, 4, and 6. Through the information obtained in these boreholes, they determined that the Tugrug Lake brown coal deposit is one of the largest deposits of this nature in this region.

In 1985, 31 additional boreholes were drilled in the Tugrug Lake area on seven horizontal lines. This exploration work determined that two basic coal layers exist in the area. The first estimate of resources was developed according to Russian standards at this time.

In 2004, a group headed by engineer Vladimir. D and geologist Avid. N executed a geological prospecting project for “MonrosPromCoal” Co., Ltd. Their work was located in Hovil, part of the Tugrug Lake coal deposit. They calculated coal resources in A+B+C rank/degree/and in other area estimated coal resources by P (Russian based classifications).

In 2005, a group with the advice of geologist Avid. N completed exploration work in the Takhilt area of the Tugrug Lake coal deposit. *TNE*’s licenses are contained within the Tugrug Lake coal deposit area.

Exploration drilling by *TNE* has been ongoing since 2005. *TNE* drilled 10 exploration holes in 2006 and 21 exploration holes in 2007.

No commercial production has yet occurred on the *TNE* holdings at Tugrug Nuur. However, a small test pit was excavated on the license area and the brown coal product from it has undergone coal quality testing. Drilling and water trenching have commenced on the coal deposit for preparation of exploration and open pit-mining. It is equipped with infrastructures and facilities such as diesel tank, pump station, generator sets, vehicles & camp and it is estimated that the coal deposit will be able to start generating revenue in late 2010.

According to *TNE*'s planning, Tugrug Nuur will be used as an open pit, with the expected length of 3000 - 3200m, width of 3000m and depth of 50-80m. General angle of side wall of the open pit would be 13 -30°, layers' height would be 10 - 20m and sloping would be 30 -60°. The open pit is expected to have 1- 4 breaks, with height of outside spoil bank of 20-30m and sloping of 30 - 35°.

The calendar plan of the mining works made by management of *TNE* is shown in the following:

Table 6.1

Calender Plan of the Mining Works

Years	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10+**
Coal Production (million tons)	0.3	2.0	2.4	2.9	3.5	4.1	5.0	6.0	7.2	8.6

Figure 6.1: Small scale exploitation

7 GEOLOGICAL SETTING

The Tugrug Lake coal deposit contains Cretaceous and Lower Cretaceous age rock units. The Lower Cretaceous formation, related to the Tevshiin Gobi formation, contains the coal layers found within the license areas.

7.1 COAL OCCURRENCES

CAMEX has provided *BMITC* with geological data for 27 drillholes completed. Figure 7.1.1 illustrates the locations of the 27 drillholes, the license boundary, and topography.

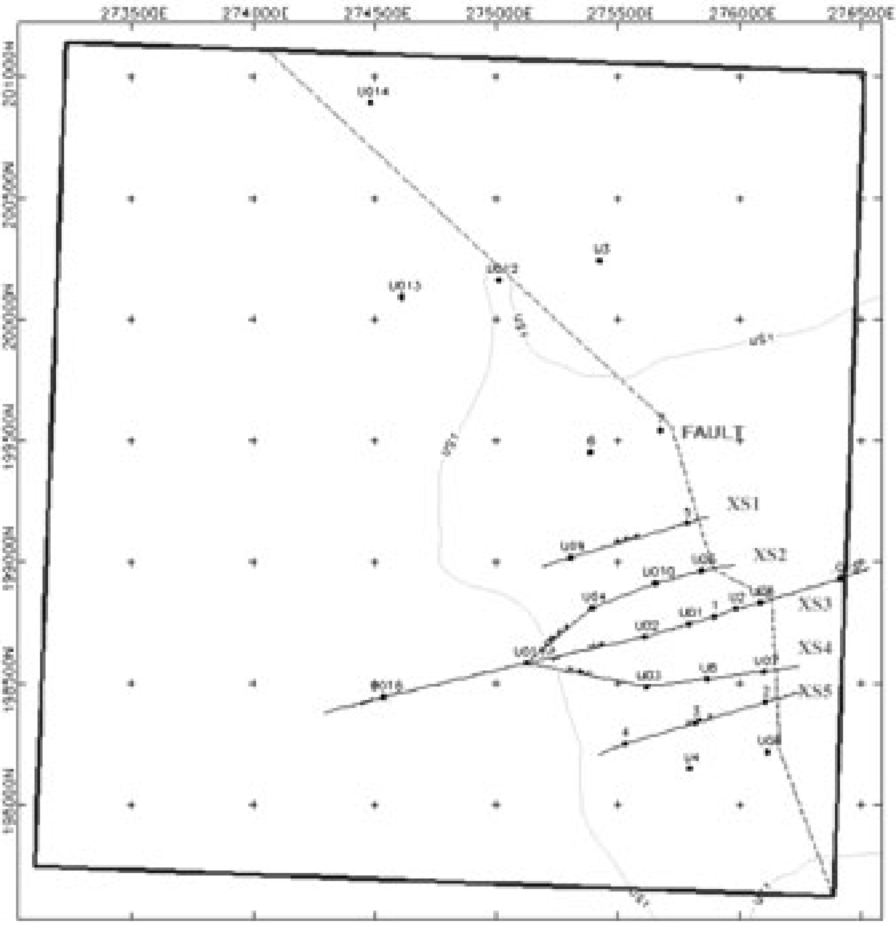

Figure 7.1.1: Drillhole Location Map with License Boundary and Topography

An independent evaluation of the coal occurrences was executed by *BMITC*. This independent evaluation included a basic re-correlation of the coal seam data provided by *CAMEX* via AutoCAD cross-sections based on downhole analog geophysical log interpretations. *BMITC* employed *Minex*® mining software to execute an independent recorrelation and has delineated three distinct coal packages.

These distinct coal packages include the:

- Upper Seam (US),
- Middle Seam (MS), and
- Lower Seam (LS).

Each of the distinct coal packages is multi-bedded, containing one or more rock partings. *BMITC* has developed independent ply correlation for each seam package. Based upon *BMITC*'s independent correlation, the following coal seam stratigraphic sequence (in descending order) has been delineated in Table 7.1.

Primary Seam	**Primary Seam Plys**
Upper Seam	US8
	US7
	US6
	US5
	US4
	US3
	US2
	US1
Middle Seam	MS4
	MS3
	MS2
	MS1
Lower Seam	LS2
	LS1
	LSB

Table 7.1: Coal Seam Stratigraphic Sequence

The Upper Seam contains eight distinct coal layers; while the Middle Seam contains four and the Lower Seam three coal layers. It should be noted that correlations are not firmly substantiated. Current drillhole spacing is sufficient to determine the gross geologic stratigraphy of the coal seams; however additional in-fill drilling is required to confidently determine correlation of individual plies in various portions of the property where coal layers coalesce. Some middle plies appear to coalesce with the base of the Upper Seam in some parts of the property and then conversely appear to coalesce with the top of the Lower Seam in other parts of the property. Only additional drilling and geophysical logging will define such relationships with confidence.

Current correlations, however, are sufficient to give an estimate of total resources. With the anticipated acquisition of new data, the assignment of such resource estimates per individual ply will of course change as probable correlation changes are made in future model updates.

BMITC developed cross-sections over the entire project area. Initial cross-sections were plotted with only borehole data to determine layer assignments. Figure 7.1.2a illustrates cross-section lines developed through an area of the deposit with the highest density of drillholes.

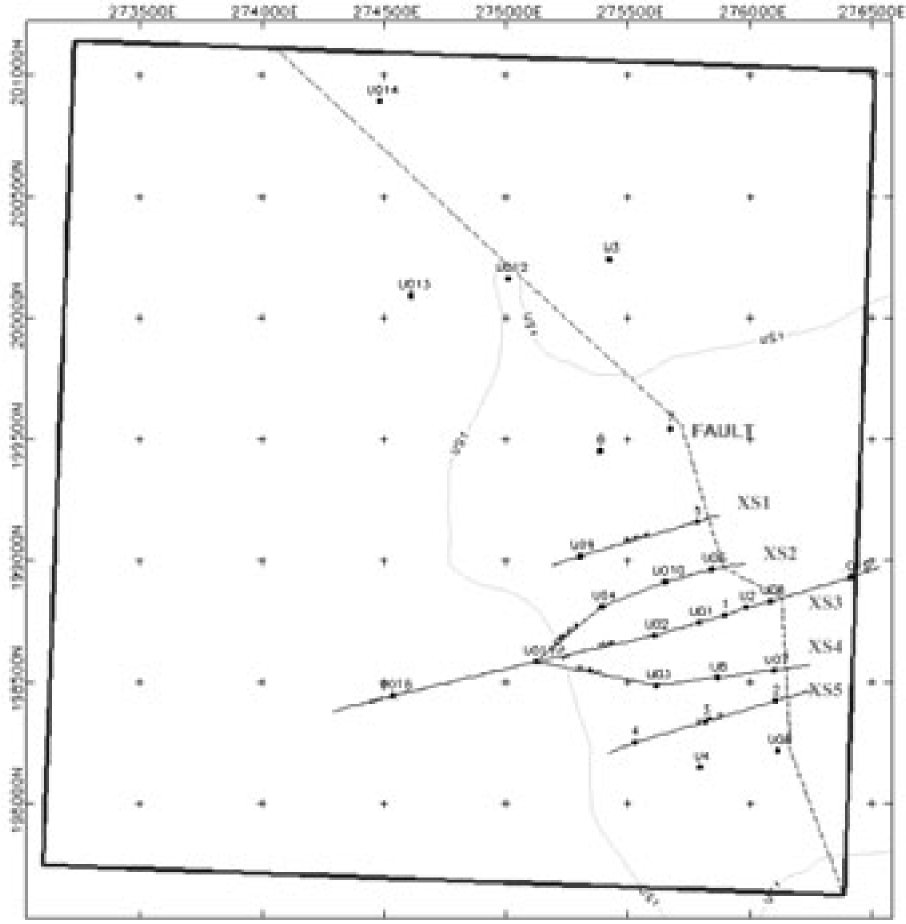

Figure 7.1.2a: Cross-Section Lines Location Map

These cross-sections are typical for the project area and are shown below in Figures 7. 1. 2b through 7. 1. 2f. The cross-sections are for general illustrative purposes only, and are not legible, or depicted at any standard engineering scale. Legible plots will be supplied at a future date.

Current data spacing is approximately 200m x 200m in the southeastern portion of the license. This spacing is adequate for assessment. The remaining license area requires more drilling for the potential of additional resource tonnages.

An anomaly has been noted relative to drillhole U2, the lithology of which does not mesh exactly with seam grids generated in the computer model, unlike all other drillholes. This may be a problem with inexact hole location or incorrectly correlated coalescing coal layers. Additional in-fill drilling should help define the geology in this area more completely.

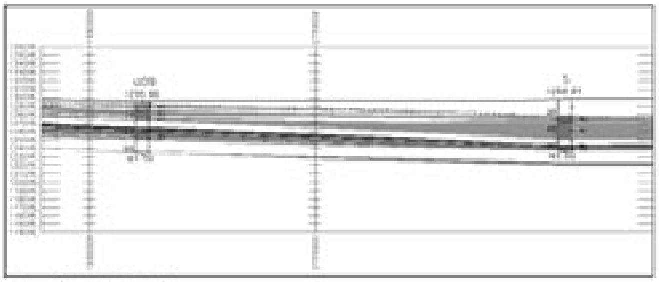

Figure 7. 1. 2b: Cross Section XS 1

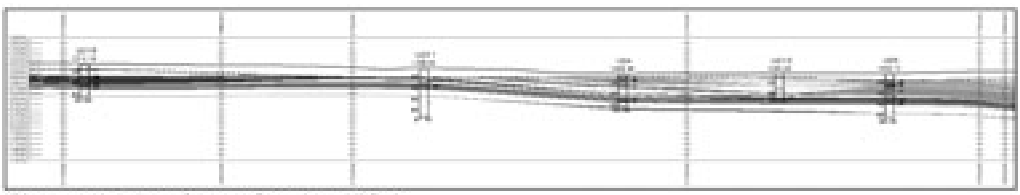

Figure 7. 1. 2c: Cross Section XS 2

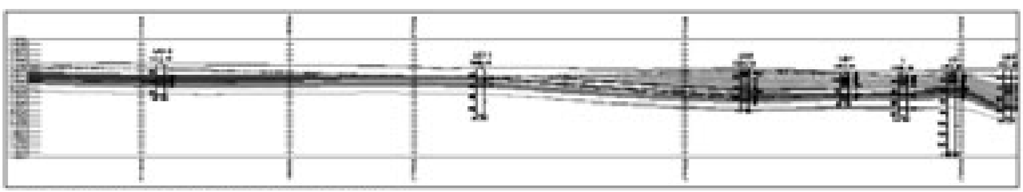

Figure 7. 1. 2d: Cross Section XS 3

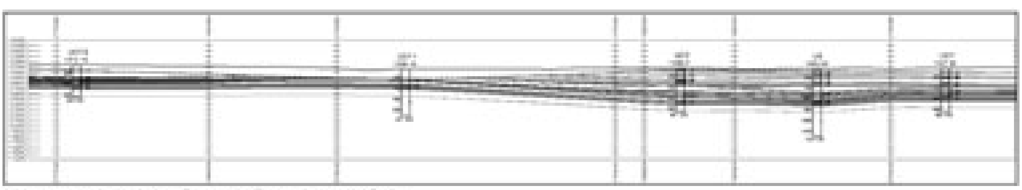

Figure 7. 1. 2e: Cross Section XS4

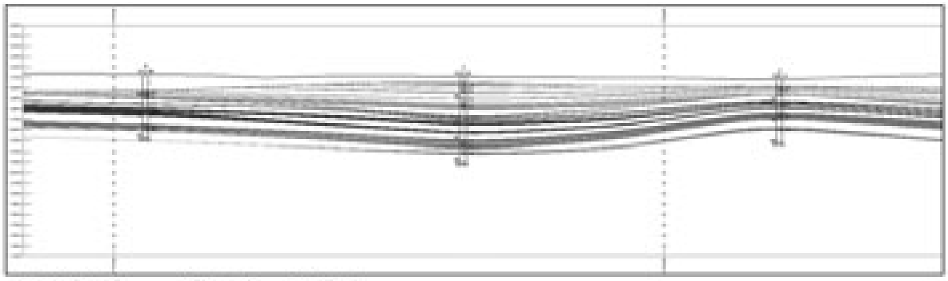

Figure 7. 1. 2f: Cross Section XS 5

Additionally, overburden to the first coal layer in each hole has been mapped and appears as Figure 7.1.3. This overburden layer in general apparently corresponds to an unconformity between the coal measures below and unconsolidated and semiconsolidated sediments above. *TNE* states that the lower coal measures are Lower Cretaceous while the upper layer is primarily Upper Cretaceous, with some Paleogene and Neogene layers. The Upper Cretaceous units are mainly a combination of alluvium and lacustrine sediments. Future trenching should validate this presumption via detailed photography.

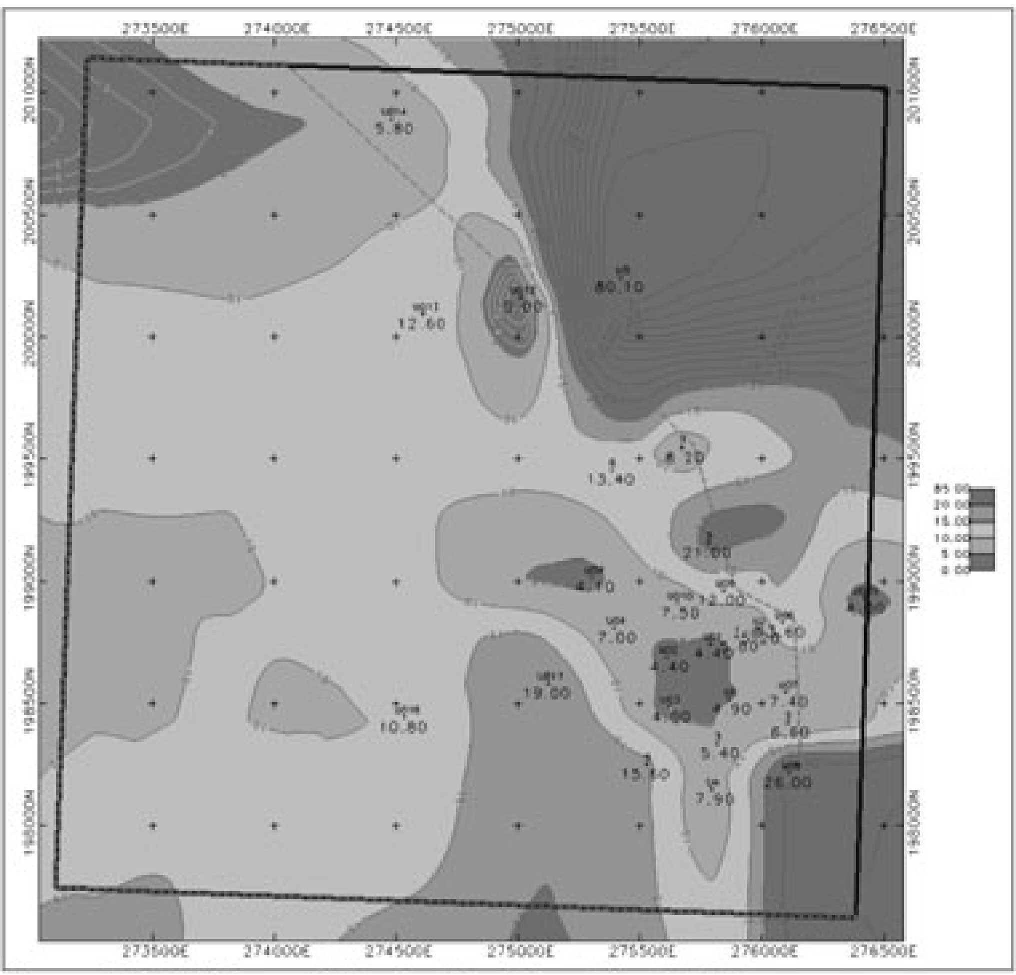

Figure 7.1.3: Thickness of Overburden Unit to First Coal Layer

7.2 STRUCTURAL GEOLOGY

The Tugrug Nuur deposit to some extent has been subjected to tectonic deformation. The deposit is characterized by minor folding, with bedding inclinations of generally less than six degrees. Faults may be present, but are relatively uncommon with only one known fault existing in the license areas. It has been reported that displacements on that fault are estimated to be of an order greater than 10 metres (reported to be generally 20 to 80 metres). Insufficient data precludes high confidence in demarcation of this fault, although three drillholes in the vicinity of the fault are barren and presumed to be located on the east side of it. These drillholes are U014, U03, and U015. For the purposes of this study, the fault location has been defined as occurring 50m east of the easternmost drillholes containing coal. Based on the limited data, the coal seams maintain lateral continuity, but simply do not have extents defined. The lateral extents of seams eastward towards and beyond the fault are therefore undefined for the purposes of this study. Further drilling around the fault line and deeper drilling east of the fault line would give more detailed limits to the coal seams in this area. Potential effects on drillholes west of the fault have been reviewed on cross-section basis only. An independent assessment of the displacement has not been executed by *BMITC* or incorporated into the digital model. Due to lack of data, the area east of the fault was excluded from the assessment resource estimations reported within this study.

The typical seam floor structures of the license area are illustrated below in Figure 7.2. The uncut-to-crop structure contours below are for the Lower Seam (LS1).

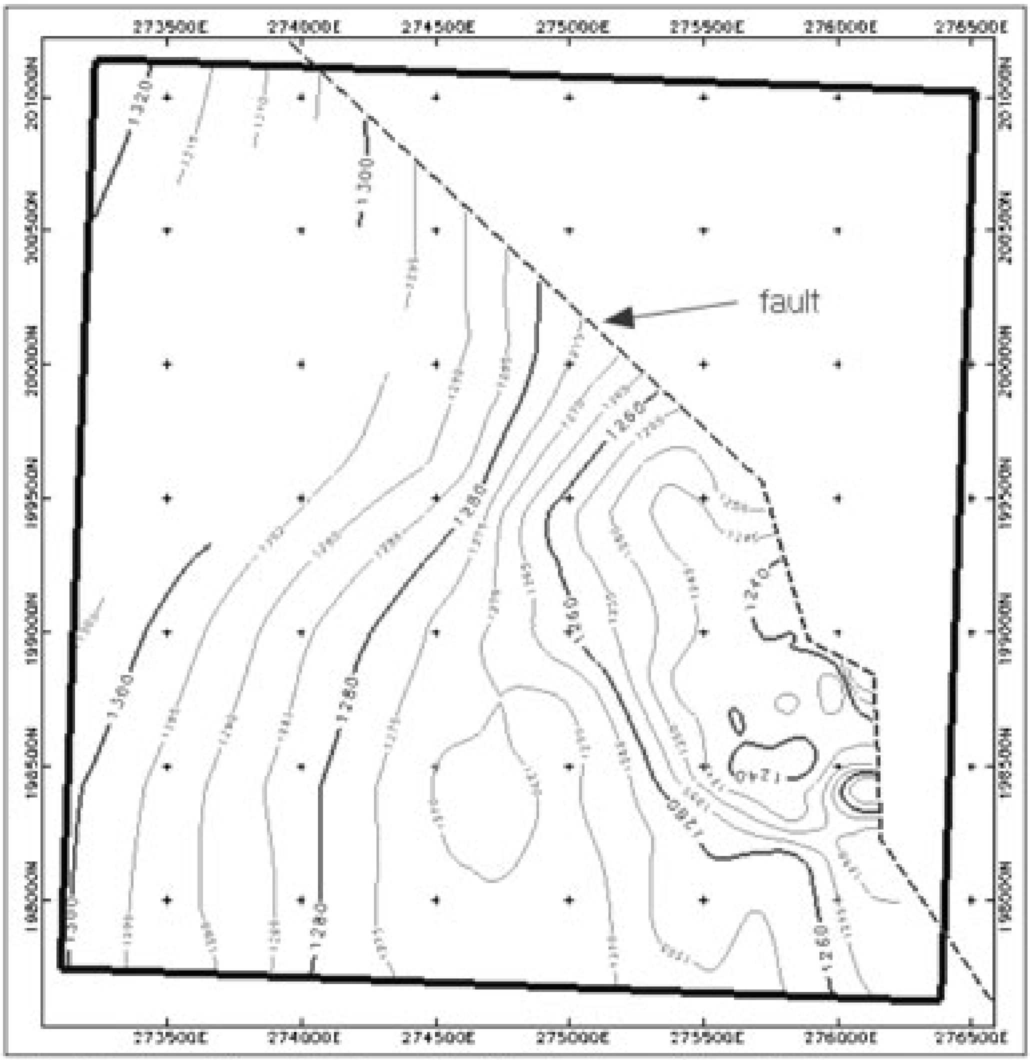

Figure 7.2: Structure Floor Contours Map for the Lower Seam (LS1)

7.3 MODELING METHODOLOGY

To facilitate the estimation of resources in the Tugrug Nuur deposit, *BMITC* subdivided the two main seam packets into three seam packets (the Upper Seam (US), Middle Seam (MS), and Lower Seam (LS)) and then identified a total of 15 coal layers within those three seam packets (US1 through 8, MS1 through 4, and LS1, LS2, and LSB) across the property. *BMITC* developed geological models using Gemcom Software International's *Minex*® software.

Downhole drillhole data was derived from analog geophysical logs interpreted by Mon Karotaj Company, Ltd. These geophysical interpretations were provided by *CAMEX* and presented as geologic cross-sections in AutoCAD format. The cross sections illustrated *TNE*'s interpretations of the coal stratigraphy present on the tenements. The cross sections posted geophysical interpretations for coal from depth-to depth coal intervals and rock parting intervals beside each drillhole. The interval postings did not include data for parting rock types (shale, sandstone, etc.). Geologist's logs are available and have been requested from *CAMEX*.

The cross section data was transferred to an Excel spreadsheet that was entered into a digital database, and then displayed on-screen via cross-sections in order to identify seam correlations from hole to hole.

Minex® has the capability of projecting via interpolation the relative position of missing layers above the hole (and thus eroded away) or below the hole (and thus not drilled deeply enough to encounter them) in order to maintain structural continuity over an area. Such intervals of course are less reliable than input data and are not used for resource calculations, but are used for building a credible structural model.

Key horizons or "surfaces" were then modeled to provide the necessary limits for volume estimation. The surfaces were stored as grid files, which are regular arrays of points in 3-dimensional space that mathematically represent any given surface. The structure/layer attributes modeled were: topography, roof, floor, thickness, interburden, and overburden. No quality attributes were modeled due to lack of data.

The grids created were generated using a proprietary algorithm called the ECS Growth Technique which combines elements of inverse distance squared with growth "trending" or extrapolation. Data was interpolated to fit a 20m x 20m mesh, scanning for usable data points over a distance of 2000m and extrapolated to infill to the grid aerial extents. The gridding parameters are detailed as follows:

X Origin =	273000	Y Origin =	197000
X Extent =	4000	Y Extent =	4500
X Mesh =	20.0	Y Mesh =	20.0
Rotation =	0.0		

Total Computed Mesh Points = 49920

Scan Distance = 2000 meters
Data Boundary = 500 meters
Extrapolation = yes
Grid Expansion = yes
Distance = fill area
Maximum points per sector = 3
Maximum mesh points = 1,000,000
Borehole Database = Yes
Geometry file = No

Floor values during the gridding were allowed to be extrapolated at the outer reaches of the data, while thickness values were limited to the maximums and minimums of each data set. Remaining structural surfaces (roof, interburden) were created through arithmetic grid manipulation. The structure grids were then cut on topography to finalize the structural model.

Reviews were made of all interpretive maps or surfaces (structure contour maps, isopach maps, etc.) to ensure the model honored the borehole data. One anomaly was identified with drillhole U02, where coal lithology intercepts do not perfectly match up with coincident locations on the modeled grids. Other holes show excellent concurrence between drillhole intercepts and correlative seam grids. Tonnage estimations are not expected to be adversely impacted by the variance seen in U02.

Volumes were converted to tonnages by application of a default density value of 1.30 gm/cc (based on historical Mongolian criteria) pending additional quality data acquisition. The coal is a non-ranked brown coal.

The estimates of in situ resources presented in this study are based on geologic projections and assumptions. These factors can affect coal layer thickness, tons, and interburden volume.

Projections and assumptions include:

- Accurate recorded coal layer thickness based on the geophysical log interpretations
- The 1.30 specific density employed (based on historic Mongolian constraints)
- The independent detailed coal layer correlation made based on limited data
- The demarcation of fault and coal layer extents in proximity to fault, based on limited data
- The location of coal sub-crops, based on insufficient data in the southern and western portion of the license areas

8 DEPOSIT TYPES

Criteria applied to coal deposits for the purposes of determination of coal resources and reserves can include both “Deposit Type” as well as “Geology Type.” For coal deposits, this is an important concept because the classification of a coal deposit as a particular type determines the range-limiting criteria that may be applied during the estimation of Resources and Reserves.

“Deposit Type,” generally refers to the extraction method most suited to the coal deposit. The Tugrug Nuur deposit is considered to be a “Surface” mineable deposit.

"Geology Type" for coal deposits can refer to the amount of geological complexity, usually imposed by the structural complexity of the area. The Tugrug Nuur deposit has been subjected to some extent by tectonic deformation. The deposit is characterized by minor folding, with bedding inclinations of generally less than six degrees. Faults may be present, but only one known fault exists in the license areas. Displacements are reported to be of an order greater than ten metres, but areas east of the fault were not considered in the resources estimations within this study.

9 MINERALIZATION

Mineralized zones on *TNE*'s Tugrug Nuur license areas are found primarily within zones of late Cretaceous sediments. As exploration work progressed, numerous additional seams and splits were discovered within the overall packages of coal previously described. As correlation and modelling have gone forward, coal seams were named and organized into a series basis as shown in Table 9.1. Thicknesses reported are based on drill intercepts and represent apparent thickness.

Table 9.1

Tugrug Nuur Deposit Coal Seam Thickness Characteristics

Seam	Ply	Total Seam Thickness Range	Total Seam Thickness Mean	No. of Drillholes
Upper Seam	US8	0.80 - 0.80	0.80	1
	US7	1.40 - 1.40	1.40	1
	US6	1.60 - 4.20	2.86	5
	US5	0.80 - 4.20	2.39	10
	US4	0.70 - 5.40	2.51	11
	US3	1.00 - 11.00	2.90	16
	US2	1.00 - 6.80	2.84	18
	US1	1.70 - 21.80	7.79	20
Middle Seam	MS4	1.00 - 1.40	1.20	3
	MS3	0.80 - 2.60	1.36	7
	MS2	0.50 - 4.60	2.35	13
	MS1	0.70 - 6.10	2.81	19
Lower Seam	LS2	0.60 - 9.80	4.51	22
	LS1	0.40 - 7.80	2.71	19
	LSB	2.00 - 5.00	3.00	4

Table 9.2 reports the coal seams, elevation ranges, interburden (rock thickness between coal seams), and the number of in-seam rock partings present based on the independent coal layer correlation executed by *BMITC*.

Table 9.2

Tugrug Nuur Deposit Coal Seam Elevation, Interburden, and Partings Characteristics

Seam	Layer	Seam Elevation Range	Seam Interburden Range (Mean)	Number of Drillholes with Partings
Upper Seam	US8	1294 - 1294	—	0
	US7	1288 - 1288	3.80	0
	US6	1285 - 1305	2.00	0
	US5	1272 - 1304	0.70 - 9.40 (3.06)	1 (0.30m)
	US4	1267 - 1303	0.30 - 4.60 (2.10)	0
	US3	1264 - 1300	0.40 - 5.60 (1.98)	1 (0.30m)
	US2	1260 - 1297	0.40 - 8.00 (2.10)	0
	US1	1236 - 1300	0.30 - 8.60 (1.61)	0
Middle Seam	MS4	1264 - 1302	2.00 - 6.20 (4.10)	0
	MS3	1261 - 1290	1.20 - 11.00 (4.60)	0
	MS2	1252 - 1284	0.70 - 4.20 (2.17)	0
	MS1	1234 - 1284	0.60 - 10.50 (3.58)	0
Lower Seam	LS2	1226 - 1284	0.60 - 8.40 (3.16)	1 (0.20m)
	LS1	1237 - 1290	0.30 - 5.00 (1.45)	0
	LSB	1229 - 1259	2.80 - 7.80 (5.30)	0

Figure 9.1 is a map illustrating the vertical in situ strip ratio on the license areas. The in situ strip ratio was calculated from the US7 coal layer through the LSB coal layer.

The US8 coal layer was excluded from the in situ strip calculation. The US8 coal layer was present in only one drillhole (U01) on the license areas. Thus, at present, the coal layer does not display lateral continuity. Additionally, the one data point for the US8 layer is less than 1 meter thickness; below the minimum thickness constraint for mine-ability. The LSB coal layer is present in only four drill holes. The mean thickness for the LSB coal layer is 3.0 meters while the mean interburden thickness is 5.30 meters. This coal thickness to interburden volume thickness adversely affects the in situ strip ratio. Removal of this coal layer from the in situ strip ratio calculation would result in a better overall ratio, but would subsequently result in a reduction of resource estimates.

Figure 9.1: Vertical In Situ Strip Ratio Map for the Tugrug Nuur Deposit

10 EXPLORATION

The main purpose of *TNE*'s prospecting operation was to provide geological-prospecting work in license areas 228A, 13553A, 13533A, and 15429A.

The following exploration activities have been executed:

1. Research work in geological trends

2. Geophysical research of the area

3. Exploration drilling and trench excavation work

4. Downhole geophysical well logs of the boreholes

5. Sample and laboratory work

6. Hydrogeologic research

7. Development of topography drawings.

The objective was to establish the primary geological features of the deposit, giving a reasonable indication of continuity, providing an initial estimate of size, shape, structure, and grade.

Trenching has been useful in identifying the near-surface expression of coal seams for locating exploratory drillholes. Coal seam thicknesses and structure, as observed in the trenches, are greatly affected by near-surface erosion, alteration, and deformation. Trenching intercepts have been found to be unreliable sources of seam characteristics and structure, and are not used in resource estimation.

11 DRILLING

Limited drilling took place under the exploration programs sponsored by the Soviet- Mongolian government. This was expanded considerably by *TNE* in 2005.

Exploration drilling by *TNE* has been ongoing since 2005. *TNE* drilled 10 exploration holes in 2006 and 21 exploration holes in 2007.

All 2005 drillholes have been geophysically logged except where holes have caved. The geophysical logs are all analog with no digital capture. The primary logs generally used for coal thickness determinations include gamma, density, resistivity, and caliper. Mon Karotaj Company, Ltd. provided these primary logs in their logging service.

All logs were examined visually. Many of the geophysical logs indicate inconsistencies with curve calibrations, but generally are of sufficient quality for defining coal lithology, and coal lithology-depth-picking. None were interpreted using geophysical software. Geophysically derived coal layer depth intervals were provided by *TNE/CAMEX* and incorporated into the geologic model. Geophysical interpretations were made by Mon Karotaj Company, Ltd. *BMITC* made no independent geophysical interpretations.

Geophysical logs thus far have been used to characterize and interpret the stratigraphy of the deposit, particularly with respect to the coal seams. Intercept depths and reported seam thickness are based on the apparent thickness of the beds as seen in the drillhole data.

12 SAMPLING METHOD AND APPROACH

The 27 *TNE* exploration holes at Tugrug Nuur were drilled by core technique. None of the holes were rotary-drilled first to determine corepoint and then "twinned" as a corehole.

Core drilling has been used to collect complete representative samples of the coal seams for quality analyses, and to observe structural details.

The coreholes at Tugrug Nuur were drilled with single-tube, Russian-made, conventional core equipment using a 93mm diameter core bit, resulting in core of 73mm diameter. Core was retrieved at three-metre intervals. None of the coring during the drill program was performed under *BMITC* supervision. Core logging and sample handling was performed by *TNE* personnel.

BMITC observed how the core is currently being retrieved, logged, and sealed. Core is retrieved at three-metre intervals and removed from the Russian-made conventional single-tube using water injection. The core samples are not hammered out. The core is ejected into a PVC trough just over three-metres in length and the core is manually adjusted to best-fit the core together when some separation has occurred. The core samples are then placed in wooden boxes separated into one-metre increments, and then depth intervals and percent core recovery are labelled. The wooden boxes are collected and transported to the field camp where they are described by a *TNE* geologist. They are then sealed in polyethylene bags with a list of analyses requested, and sent to a laboratory for analyses.

13 SAMPLE PREPARATION, ANALYSES AND SECURITY

Samples were collected from all cored drillholes. These samples were collected and recorded by field geologists employed by *TNE*. The collected samples were then submitted for analysis.

These samples are taken from the site in the area by 0.5m interval from 1-3 meters trenches depending on coal structure, quality and type according to prospecting work requirement. All samples from boreholes and trenches' wall were put in poly-etilin bags with order list and sent to the laboratory.

Core is retrieved at three-meter intervals and removed from the Russian-made conventional single-tube using water injection. The core samples are not hammered out. The core is ejected into a PVC trough just over three-meters in length and the core is manually adjusted to best-fit the core together when some separation has occurred. Core recovery is not immediately recorded via engineering tape measures, but approximated based on the PVC trough length. It is sufficient to determine gross core loss.

Samples are taken from drilled boreholes and samples from trenches. All samples were transported from the deposit area to be analyzed by the Central Geological Laboratory (CGL) in Ulaanbaatar, Mongolia, which is ISO-certified. Dual sampling was not undertaken in order to send identical samples to an independent laboratory for verification of results.

Excel spreadsheet development is in progress and should provide information on sample interval lengths and whether rock partings were sampled or excluded.

CGL is ISO- and/or GOST-certified in the following coal testing suites:

- Total sulphur
- Ash
- Moisture
- Volatile matter
- Specific energy
- Carbon
- Hydrogen

Also, 32 chemical elements were tested in X-ray analysis for 93 enclosed samples. Furthermore, coal radioactive tests were made in 3 coal samples given to X-ray control laboratory of State Professional control Department.

In coal work, additional special security methods for the shipping and storage of samples are not commonly employed, as coal is a relatively low-value bulk commodity.

Figure 13.1: Borehole Drilling

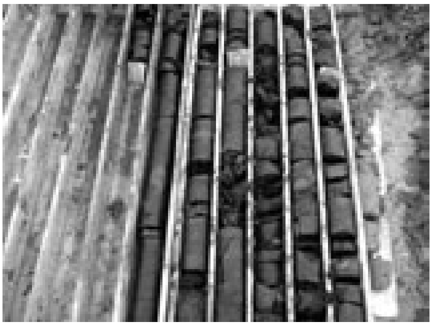

Figure 13.2: Borehole Cores and Trench

14 DATA VERIFICATION

Upon completion of a drillhole, the geologic and geophysical logs are reviewed by a *TNE* geologist.

BMITC has visited the Tugrug Nuur deposit site and viewed drillhole locations and several trench excavations with observable brown coal present. The drillhole locations are marked with a permanent sign posting the drillhole identification number.

Information collected prior to *BMITC* involvement has been supplied by *CAMEX/TNE* via hard copy documentation. The hard copies provided have been directly verified by *BMITC* while in *CAMEX*'s office, Ulaanbaatar, Mongolia.

BMITC has audited or verified samples and data used for resources estimation.

During the investigation to the Tugrug Nuur deposit, for a checking purpose, 14 samples were sent to Geological Central Laboratory and tested by internal control analyses. The results of these internal control analyses are shown in the table below.

Indicators	**Intervals of Content**	**Average Content of the Sample**
Moisture (%)	4.05- 9.69	5.205
Ash (%)	5.55-44.05	21.60
Heat creation (kcal)	2,278- 6,944	5,542
Volatilic substance (%)	46.43- 64.71	52.304

The outcoming heat & moisture content is similar to that of the results from the main analysis samples while the ash and volatilic substance content is relatively higher. As the sample size is relatively small, the results from the checking samples might not be able to fully represent the quality of coal within the whole deposit. Generally, the assaying results from checking samples are not significantly deviate a from that of the main analysis samples as shown in table 16.1.

15 ADJACENT PROPERTIES

North of *TNE*'s Tugrug Nuur Licenses is a mine controlled by Tserkon Mining, LLC. East of the *TNE* Licenses is a mine controlled by Monrospromugoli LLC. *BMITC* is not aware of the current operating status of these mines.

16 MINERAL PROCESSING AND METALLURGICAL TESTING

The author is aware of 104 individual core quality samples taken during the drilling exploration program. An additional 30 quality samples were also extracted during the previous exploration program.

16.1 REGIONAL QUALITY CHARACTERISTICS

Composite quality analyses performed to date at *TNE*'s Tugrug Nuur holdings indicate the coal rank to be a non-ranked brown coal.

Regionally, the coal is generally a typical brown coal, typified by higher moisture and ash content, with sulphur generally above one percent. Historically, without applying quality specification constraints, this type of coal has been suitable for electricity generation.

16.2 COAL QUALITY

A total of 27 core exploration holes have been completed in the resource area at Tugrug Nuur. Of this total, 19 coreholes (70%) have contained samples suitable for quality analyses.

Exploration and modeling activities to date have defined three multi-bedded seams in the resource area. These seams have been discussed in Sections 7 and 9.

104 individual core quality samples are reported to have been taken during the drilling exploration program. An additional 30 quality samples were reportedly extracted during the previous exploration program. A summary of the coal quality is shown as follows:

Table 16.1

Quality of Coal

Indicators	Intervals of Content	Average Content	Number of Main Analysis
Moisture, W (%)	2.02 - 9.69	6.04	140
Ash, A (%)	6.0 - 30.5	17.3	140
Sulphur, S (%)	0.09 - 2.55	0.93	130
Volatile substance, V (%)	31.22 - 48.17	39.65	109
Heat creation, Q (kcal)	4,043 - 6,944	5,838	143

17 MINERAL RESOURCE ESTIMATES

17.1 APPROACH

BMITC has incorporated its international coal experience along with consideration of the JORC Code (2004 edition) and United Nations Framework Classification for Energy and Mineral Resources requirements during the classification, estimation, and reporting of coal resources for the Tugrug Nuur property contained in this report.

17.2 COAL RESOURCE ESTIMATION

The term "resource" is utilized to quantify coal contained in seams occurring within specified limits of thickness and depth from surface. The resource estimations contained within are on a clean basis, i.e., as an in situ tonnage and not adjusted for mining losses or recovery. However, minimum mineable seam thickness (1.0m) and maximum rock parting thickness (0.3m) are considered; coal intervals not meeting these criteria are not included in the resources. No quality constraints have been employed in the estimations. Additionally, the area east of the fault was excluded from the assessment resource estimations reported within this study.

To facilitate the estimation of resources in the Tugrug Nuur Property, *BMITC* developed a geological model for the Tugrug Nuur deposit using Gemcom Software International's *Minex*® software. Key horizons or "surfaces" were modeled to provide the necessary limits for volume estimation. Volumes were converted to tonnages by application of a default density value of 1.30 gm/cc (based on historical Mongolian criteria) pending additional quality data acquisition. The coal is a non-ranked brown coal. The base of the overburden unit was used as an upper limit on coal surfaces for the calculation of resources. This unit is discussed in detail in Section 6.1 of this study.

Resources are classified as to the assurance of their existence into one of three categories, Measured, Indicated, or Inferred. The category to which a resource is assigned depends on the level of confidence in the geological information available. The classification of resources reported in Table 17.1 is based on the author's experience and referenced and referenced international guidelines including the JORC Code (2004 edition) and the United Nations Framework Classification for Energy and Mineral Resources.

Table 17.1

Criteria Used to Define Assurance of Existence for Coals

	Assurance of Existence Category		
Resource Criteria	**Measured**	**Indicated**	**Inferred**
Distance from nearest data point (m)	0 - 225	225 - 450	450 - 900

An example of the distance criteria employed is illustrated in Figure 17.2 below and represents the aerial extents of the Lower Seam (LS2) brown coal layer.

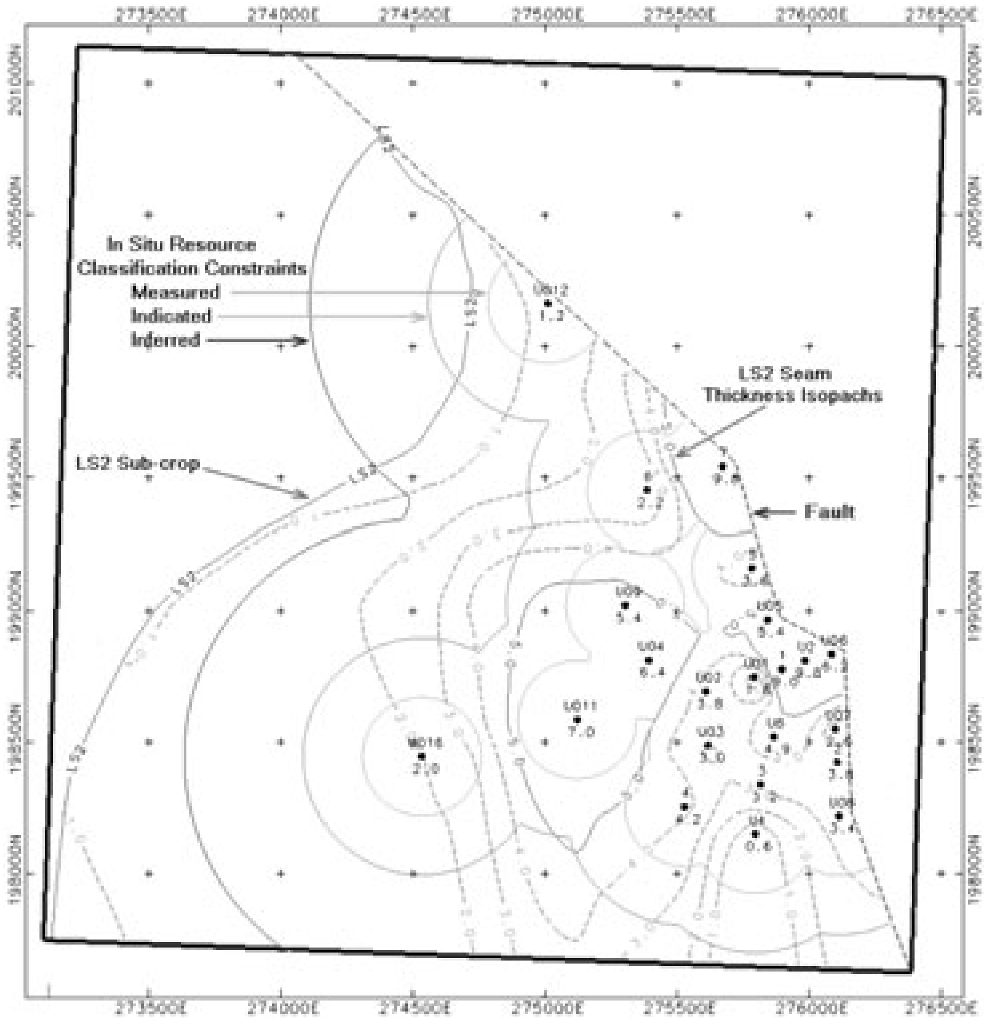

Figure 17.2: Distance Criteria for Lower Seam (LS2)

Drilling to date has progressed to a point where an initial resource of 91.9 million tonnes of in situ coal (measured plus indicated and inferred) has been identified. Classifications of in situ tonnages are summarized in Table 17.2.

Table 17.2

Classification of In Situ Resources

	In-Place Resources (Tonnes)		
ASTM Group	**Measured**	**Indicated**	**Inferred**
Non-Ranked Brown Coal	42,005,000	21,958,000	27,948,000
Total:	**91,911,000**		

There are 811.6 hectares contained in the license area west of the fault. Based upon geological data approximately 156.6 hectares (19.3%) are measured resources; 148.9 hectares (22.8%) are indicated resources; 241.4 hectares (29.8%) are inferred resources, and 264.7 hectares (28.1%) remain unclassified.

The resource estimations do not include assumptions concerning:

- Mining factors
- Recovery of by-products
- Estimation of deleterious elements or other non-grade variables of economic significance

Additional drilling would be required to potentially upgrade the inferred resource tonnage to reserve status. Commonly it is reasonable to expect that the majority of Inferred Resources would upgrade to Indicated Resources with continued exploration. However, due to the uncertainty of Inferred Resources, it should not be assumed that such upgrading will always occur. It should also be understood that in the JORC Code and the United Nations Framework Classification for Energy and Mineral Resources, there is no direct link between Inferred Resource and any category of coal Reserves.

18 ENVIRONMENT

18.1 ENVIRONMENTAL PROTECTION REGULATIONS

The principal environmental protection laws, as they related to mining operations, pertain to the following areas:

- Environmental protection
- Air pollution
- Water pollution control
- Solid waste control
- Ambient noise control
- Water preservation
- Soil and water conservation
- Responsible production practices
- Environmental impact evaluation

18.2 SOIL AND WATER CONSERVATION

In accordance with the Soil and Water Conservation law, effective methods are planned to avoid, or to minimize, the loss of soil and water. Examples include constructing cinder dams in refuse disposal sites and retaining walls instep slope areas; timely repair of surface cracks and depressions, and reclamation of disposal sites, etc.

18.3 SOLID WASTE DISPOSAL

Solid wastes include waste rock, ash residue from boiler, and domestic living waste. According to estimation made by a Mongolian mine planning and research specialist, *Bal Chuluu LCC*, the average strip ratio will be around 1.24. Waste rock will be temporarily stored in surface disposal areas with most of the waste rock used to fill the subsided areas. A portion of waste rock with sufficient heat content may be used for power generation. In addition, the region has successfully used waste rock for brick making. Ash residue is planned to be used for road pavement or construction material. Domestic waste will be collected and disposed at a planned location.

18.4 WATER RESOURCES PROTECTION

Water management plans are in place to protect water resources during the mining process, and recycle groundwater inflows into the mine workings after such water is collected and processed.

18.5 AIR POLLUTION CONTROL

Boiler exhaust emissions and fugitive dust from coal processing, coal handling and transportation activities are the primary sources of air pollution.

Coal-burning boilers are planned to be fitted with multi-pipe dust filtering equipment for capturing and processing exhaust emissions. The filtering system reduces smoke discharges to meet the requirements of local environmental regulations.

Automatic water sprays are installed at coal storage sites to reduce fugitive dust. Drivers are required to cover loaded truck beds to control dust and follow posted speed limits. Routine road washing and tree plantings along the access roads are also planned to minimize fugitive dust accumulation and dispersal.

19 INTERPRETATION AND CONCLUSIONS

Exploration to date at *TNE*'s Tugrug Nuur brown coal deposit has been successful in the delineation of 64.0 million tonnes of brown coal (measured plus indicated) in situ resources, and an additional 27.9 million tonnes of inferred resources. The classifications are based on the author's experience and guidance from internationally accepted standards.

The coal is not ranked, being a brown coal type deposit. The coals, without applying quality specification constraints, have potential for close-proximity-based electricity generation.

BMITC has not managed or provided any direct supervision of the exploration program which provided by TNE. *BMITC* has reviewed data from previous programs. *BMITC* is managing the digital database development of the data previously collected, the construction of the geologic model, including independent coal seam correlations, and the assessment resource calculation.

20 DATE

The effective date of publication of this assessment Geological Study is 12 May 2010.

APPENDIX 1 – INTERNATIONAL STANDARDS AND THE JORC CODE

Two main styles of resource reporting codes exist internationally. These are the American style (USA and much of South America) and the JORC style (Australia, South Africa, Canada, and UK). This is further complicated by the listing and reporting requirements of different stock exchanges. It is generally true that a resource estimation that complies with the JORC code (or one of its sister codes) will meet the standards of most international investors.

The new Chinese code is a blend of the old Chinese Code and the codes in current use today, including JORC and the current United Nations (UN) standard, with some additional local components added.

JORC is a non-prescriptive code, in that it does not lay out specific limits for resource classification in terms of such things as borehole spacing. Instead it emphasises the principles of transparency, materiality and the role of the Competent Person. Whilst some guidelines do exist (e.g. the Australian Guidelines for the Estimation of Coal Resources and Reserves) they are not mandatory and classification is left in the hands of the Competent Person. When combined with its Professional Standards (which are effectively mandatory), the Chinese code is much more prescriptive but does not include the role of the Competent Person.

An examination of the details of the Chinese code suggests that in terms of broad categorisation, the levels of geological confidence ascribed to Measured and Indicated resources are quite similar in both the codes. The ranges of borehole spacing, thickness cut-offs and quality limitations that are enforced by the Chinese system would generally result in the same resource classification under the JORC Code.

The JORC Code uses the following definitions for Mineral Resources and Mine Reserves:

Measured Mineral Resource is that part of Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.

Indicated Mineral Resource is that part of Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

Inferred Mineral Resource is that part of Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

Proved Mine Reserve is the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

Proved Mine Reserve represents the highest confidence category of Mine Reserve estimates. This requires detailed exploration and quality data "points of observation" to provide high geological confidence.

Probable Mine Reserve is the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistic ally assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

Probable Mine Reserve has a lower level of confidence than a Proved Mine Reserve but has adequate reliability as the basis of mining studies.

The following is the text of a letter prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 31 March 2010 of the market value of a 100% equity interest in Tugrug Nuuryn Energy LLC to be acquired by Ming Hing Waterworks Holdings Ltd.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

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12 May 2010

The Directors
Ming Hing Waterworks Holdings Ltd.
Units 1809-1812, Telford House
No. 16 Wang Hoi Road
Kowloon Bay, Kowloon
Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from Ming Hing Waterworks Holdings Ltd. (referred to as the "Company") for us to provide our opinion on the market value of a 100% equity interest in Tugrug Nuuryn Energy LLC (referred to as "TNE") as at 31 March 2010 (referred to as the "date of valuation").

This report includes the background of TNE, an industry overview, the basis of the valuation and assumptions. It also explains the valuation methodology utilized and presents our conclusion of the value.

BASIS OF VALUATION

We have conducted our valuation in accordance with "The HKIS Valuation Standards on Trade-Related Business Assets and Business Enterprises" published by the Hong Kong Institute of Surveyors (HKIS) in August 2004. Our valuation has been carried out on the basis of market value. Market value is defined as "*the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without* compulsion".

BACKGROUND OF TNE

TNE was established in 2005 and incorporated in Mongolia. TNE focuses on exploration and development of its cretaceous age brown coal deposits (referred to as the "Mine") at Bayan County, Tuv Province, Mongolia to supply a wide range of coal and processed coal products to Mongolia. TNE currently holds 4 coal related mining licenses.

Mine

The Mine is located at the Tugrug Valley within the administrative unit of Bayan County, Tuv Province, Mongolia. The Mine is 170 kilometers southeast of Mongolia's capital city Ulaanbaatar, 22 kilometers from the main railway line connecting China and Russia and 35 kilometers from power grid.

Mining License

	License Number	License Nature	Land Area (hectares)
1	228A	Mining	11.6
2	13533A	Mining	143
3	13553A	Mining	563
4	15429A	Mining	396

Under the laws of Mongolia, exploration licenses are granted by the Mongolian government for a period of three years with the right to extend the period twice for three additional years per extension. Following a successful exploration program, an exploration license holder can apply for a mining license to any portion of the property controlled by the exploration license. A mining license is granted for a period of 30 years, with the right to extend the period twice for 20 additional years per extension.

INDUSTRY OVERVIEW

Coal accounts for 73% of total national energy consumption in Mongolia. In recent years, Mongolia's coal consumption has remained relatively constant while production has increased, indicating that Mongolia is shifting its status from a coal importer to a coal exporter. Increased production is partly attributed to the privatization of several state-owned mines and the expansion of the output to meet the increasing coal demand in China.

Mongolia has vast coal reserves estimated at 152 billion tonnes, 22.3 billion of which are proven. There are 200 coal deposits within 15 coal basins in Mongolia. Most of these reserves are proven but have not been developed due to a lack of infrastructure. Several infrastructure improvements are planned to accommodate an increase in coal mining as well as mining of other vast mineral reserves such as copper and gold. A 220 kilovolt direct current power transmission line is to be constructed from 2008 to 2010, connecting Ulaanbaatar to the southern mining regions. A power plant is also planned for construction from 2009 to 2011 in order to meet the electricity demands of the mining developments.

Mongolia's Ministry of Fuel and Energy has outlined a number of policy goals including increased government support in coal export, reductions in customs taxes for coal export, reduction of rail transport tariffs and appropriate changes in relevant laws, all of which will encourage increased coal production.

SOURCE OF INFORMATION

For the purpose of our valuation, we were furnished with the financial and operational data related to TNE, which were provided by the senior management of the Company.

The valuation required consideration of all pertinent factors affecting the economic benefits of TNE and its abilities to generate future investment returns. Factors considered in the valuation included, but were not limited to, the following:

- The business nature of TNE;
- The financial and operational information of TNE;
- The specific economic environment and competition for the market in which TNE operates;
- The estimated coal resource as stated in the technical report (referred to as the "Technical Report");
- Market-derived investment return of entity engaged in similar lines of business; and
- The financial and business risks of TNE, including the continuity of income and the projected future results.

SCOPE OF WORKS

In the course of our valuation work for TNE, we have conducted the following steps to evaluate the reasonableness of the adopted bases and assumptions provided by the senior management of the Company:

- Conducted a site inspection of TNE;
- Interviewed with the senior management of the Company;

- Obtained all relevant financial and operational information of TNE;
- Performed market research and obtained statistical figures from public sources;
- Examined and reviewed all relevant bases and assumptions of both financial and operational information related to TNE, which were provided by the senior management of the Company and were considered to have been prepared on a reasonable basis and arrived at after due and care consideration by them;
- Prepared a business financial model to derive the indicated value of TNE; and
- Presented all relevant information on the background of the Company and TNE, the source of information, the scope of works, the valuation assumptions and methodology, comments and our conclusion of value in this report.

VALUATION ASSUMPTIONS

Given the changing environment in which TNE is operating, a number of assumptions have to be established in order to sufficiently support our concluded value of TNE. The major assumptions adopted in our valuation are:

- There will be no major changes in the existing political, legal, technological and economic conditions in the jurisdiction where TNE operates;
- There will be no major changes in the current taxation law in the jurisdiction where TNE operates, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- The financial and operational information in respect of TNE have been prepared on a reasonable basis, reflecting estimates that have been arrived at after due and careful considerations by the senior management of the Company;
- All relevant licenses/permits will be obtained to sustain and expand the current course of business;
- Exchange rates and interest rates will not differ materially from those presently prevailing; and
- Economic conditions will not deviate significantly from economic forecasts.

VALUATION METHODOLOGY

Three generally accepted valuation approaches have been considered in the valuation. They are the *cost approach*, the *market approach* and the *income approach*.

The Cost Approach

The cost approach provides an indication of value based on the principle that an informed buyer would pay no more than the cost of producing a substitute asset with equal utility as the subject asset.

Under the cost approach, the historic cost method measures the cost incurred through the development of the subject asset at the time it was developed; the replication cost method measures the amount of investment that would be required to develop an asset similar to the subject asset; and the replacement cost method measures the amount of investment that would be required to develop the subject asset as it currently exists.

The Market Approach

The market approach provides an indication of value by comparing the subject asset to similar businesses, business ownership interests or securities that have been sold in the market, with appropriate adjustments for the differences between the subject asset and the comparable assets.

Under the market approach, the guideline company method computes a price multiple for publicly listed comparable companies and then applies the result to a base of the subject asset; and the sales comparison method computes a price multiple using recent sales and purchase transactions of comparable assets and then applies the result to a base of the subject asset.

The Income Approach

The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset.

The discounted cash flow (DCF) method is the most fundamental and prominent method of the income approach. In applying the DCF method, the expected cash flows of an asset in the future were determined. The results were then discounted using a discount rate, or the cost of capital, to determine the present value of the expected cash flows. The present value of the expected cash flows was computed using the following formula:

$$PVCF = CF_1/(1+r)^1 + CF_1/(1+r)^2 + \ldots + CF_n/(1+r)^n$$

Where:

PVCF	=	present value of expected cash flows
CF	=	expected cash flow
r	=	discount rate

The Selected Valuation Approach

Among the three approaches, the cost approach was regarded not appropriate in the valuation, as it only considers the costs of recreating TNE and the costs may not represent the market value. The market approach was also considered inadequate in the valuation, as most of the important assumptions are hidden. Thus, the expected growth in sales and earnings, its expected risk, the unique operating characteristics of TNE are all ignored under the market approach. Therefore, we determined that the income approach was the most appropriate approach for the valuation.

Calculation of Cash Flow Period

Based on the estimated coal resource from the Mine stated in the Technical Report and the anticipated production rate, it is believed that those resources are sufficient to support production for 14 years. The length of production period of the Mine is determined by reference to the estimated coal resource of the Mine (using 100% of measured resources + 100% of indicated resources + 50% inferred resources as stated in the Technical Report) and the anticipated production rate of coal of the Mine per annum.

Calculation of Expected Cash Flow (i.e. Free Cash Flow)

In the valuation, the free cash flows were determined from the net income after tax plus non-cash expenses, such as depreciation and amortization expenses, and after-tax interest expense; the result was then less non-cash incomes, investment in capital expenditure and investment in net working capital. The free cash flows were computed using the following formula:

$$FCF = NI + NCE + Int\,(1 - T_c) - NCI - InvFA - InvWC$$

Where:

FCF	=	free cash flow
NI	=	net income after tax
NCE	=	non-cash expenses
Int	=	interest expenses
T_c	=	corporate tax rate
$Int\,(1 - T_c)$	=	after-tax interest expense
NCI	=	non-cash incomes
$InvFA$	=	investment in capital expenditure
$InvWC$	=	investment in net working capital

For the purposes of determining the free cash flows for the cash flow period for TNE, the production forecast, the capital cost forecast and the operating costs analysis forecast for the Mine as derived by the senior management of the Company based on the feasibility study made by a Mongolian mine planning and research specialist, Bal Chuluu LCC, a company established in 2000 and has received the special authorization for mining plan and research in Mongolia, it has finished over 60 exploitation studies and 2 government research projects up to the date of this valuation, are set out in the following tables and notes were applied:

Production and Capital Cost Forecast for the Mine

Year	Coal production (tonne '000) *(Note 1)*	Sales price (US$/tonne) *(Note 2)*	Capital cost (US$ '000) *(Note 3)*
2010	300	15.0	5,729
2011	2,000	25.1	—
2012	2,400	28.0	6,185
2013	2,880	35.4	—
2014	3,456	36.5	—
2015	4,147	42.9	7,519
2016	4,977	43.8	—
2017	5,972	47.2	—
2018	7,166	47.2	9,142
2019	8,600	47.2	9,757
2020	8,600	47.2	5,043
2021	8,600	47.2	5,382
2022	8,600	47.2	5,744
2023	6,450	47.2	—

Notes:

(1) The production will increase gradually since 2010 and is expected to reach the anticipated full production rate of the Mine in 2019. For the purpose of calculation, the remaining resource is assumed to be completed consumed in 2023.

(2) The expected sales price of coal is estimated based on i) the export pit price of coal published by the Ministry of Mongolia; ii) the forward price of Coal CIF ARA Index extracted in Bloomberg; and iii) the historical average global inflation rate published by the World Bank Group.

(3) The expected capital cost includes required investment in i) equipment for mining operations; ii) plant facilities, construction and improvements; iii) office renovation and equipment; and iv) vehicles for transportation. The expected capital cost has taken into account the inflation rate. Under the capital cost forecast for the TNE Mine, approximately US$5.7 million will be spent in 2010 to acquire machinery and equipments for an ore extraction capacity of approximately 2 million tonnes per annum to meet with the expected annual production of approximately 2 million tonnes in 2011. Hence, no capital cost is expected to be incurred in year 2011. From 2012 to 2014, the annual production volume is expected to increase from approximately 2.4 million tonnes to approximately 3.5 million tonnes. In order to cater for the 3-year expansion plan, in 2012, approximately US$6.2 million will be used to purchase additional machinery and equipments for the increase in ore extraction capacity to approximately 4 million tonnes. Therefore, no capital cost is required until 2015 when the expected annual production in 2015 reached over 4 million tonnes. The capital cost in year 2015 is estimated based on similar principal.

Operating Cost Analysis Forecast for the Mine

Item	2010 *(US$ '000)*	2011 *(US$ '000)*	2012 *(US$ '000)*	2013 *(US$ '000)*	2014 *(US$ '000)*
Mining Cost					
Mining	776	4,581	5,837	7,062	8,229
Power	1,229	7,557	9,939	12,660	15,340
Labour	89	635	807	1,033	1,323
Others	36	348	459	667	832
Selling & Administration Expense					
Management	1,299	1,311	1,432	1,572	1,734
Others	2,744	3,390	3,651	3,845	4,054
Total Operating Cost:	**6,173**	**17,822**	**22,125**	**26,839**	**31,512**

Note: For the purpose of calculating the operating cost, it was assumed that the overall selling & administration expense as well as the mining cost for each unit of coal produced will remain similar throughout the life of the mine after 2014 save for adjustments to take into account on inflation.

TNE's value added tax, royalty charge and corporate tax rate are understood to be 10%, 2.5% and 25% based on discussions with the Company's Mongolian counsel. Since the interest expense was excluded when computing the net income after tax (NI), the after-tax interest expense is not needed to add back to the NI practically due to the netting effect. The investment in net working capital was estimated to be approximately 2 months of the operating revenue. The working capital requirement estimate is determined by reference to: (i) the industry norm of using approximately 2-3 months' operating revenue as net working capital for preliminary valuation of mining companies; (ii) the Company's estimates of the working capital requirement of TNE when it commences operation; and (iii) the average working capital to revenue ratio of approximately 0.6 month of the industry comparables. Non-cash expense was the depreciation incurred mainly from the capital expenditure.

Calculation of the Discount Rate

The Weighted Average Cost of Capital (WACC) was adopted as the discount rate for the valuation. It is the required return on the capital investment of a company. The cost of capital will be different for each source of capital and class of securities a company has, reflecting the different risks. The WACC is the weighted average of the costs of each of the different types of capital, and the weights are proportion of the company's capital that comes from each source. The WACC was computed using the following formula:

$$WACC = R_e\,(E/V) + R_d\,(D/V)\,(1-T_c)$$

Where:

$WACC$	=	weighted average cost of capital
R_e	=	cost of equity
R_d	=	cost of debt
E	=	value of the firm's equity
D	=	value of the firm's debt
V	=	sum of the values of the firm's equity and debt
T_c	=	corporate tax rate

(I) Cost of Equity

The cost of equity of 14.42% was determined using the Capital Asset Pricing Model (CAPM) which describes the relationship between the risk of a particular asset, its market price and the expected return to the investor, that investors required additional return to compensate additional risk associated by the following formula:

$R_e = R_f + \beta * MRP$

Where:

R_e	=	expected return on equity capital
R_f	=	risk-free rate *(Note 1)*
β	=	beta coefficient *(Note 2)*
MRP	=	market risk premium *(Note 3)*

Notes:

1. In the CAPM, the time value of money is represented by the risk-free rate. Since the cash flows, as well as the expected return, were estimated in the United States dollars, the yield rate of United States Treasury Notes should be adopted consistently. Thus, the yield rate of the 30-year United States Treasury Notes as at the date of valuation of 4.71% was adopted as the risk-free rate (R_f) in the valuation.

2. The beta coefficient (β) measures the risk of an asset relative to the overall market. It reflects the sensitivity of an asset's value to economic variables or risks that affect the values of all risky assets, including economic growth rates, interest rates, exchange rates and inflation rates. As TNE is yet to commence operations nor a listed company, it is not possible to determine its beta. An approximate for the beta for TNE was, instead, estimated by taking the average of the betas of publicly listed companies similar to TNE (i.e. industry comparables), adjusted for differences in corporate tax rates and leverage compositions.

   The key selection criteria was that the companies were within the same sector as TNE, namely the coal mining and processing sector and whose sales made up greater than 90% of annual turnover based on the latest annual report. It was also important that they were publicly listed in the PRC's stock exchanges and whose shares were actively traded to ensure each of their betas reflected true market value.

   The betas of the industry comparables were adjusted using the following generally accepted formula, such as Bloomberg, which is based on the assumption that a security's beta moves toward the market average over time:

   *Adjusted Beta = 0.33 + 0.67 * Raw Beta*

The unlevered beta was calculated to consider the differences in corporate tax rates and leverage compositions of TNE and the comparable companies. The unlevered beta removes the effects of the use of leverage on the capital structure of a firm. Removing the debt component allows an investor to compare the base level of risk between various companies. The unlevered beta was computed using the following formula:

$\beta_u = \beta_l / 1 + (1 - Tc)\ (D/E)$

Where:

β_u	=	unlevered beta
β_l	=	adjusted levered beta
T_c	=	corporate tax rate
D	=	value of the firm's debt
E	=	value of the firm's equity
D/E	=	debt-to-equity ratio

The raw betas and the unlevered betas of the comparable companies are as follows:

Name of Company	**Raw Beta**	**Unlevered Beta**
SHANXI XISHAN-A	1.100	0.999
SHANXI LU'AN-A	1.282	1.051
PINGDINGSHAN-A	1.175	1.033
SHANXI GUOYANG-A	1.131	1.019
DATONG COAL INDU	1.182	1.002
SDIC XINJI-A	1.353	0.989
KAILUAN ENERGY-A	1.323	0.834
GUIZHOU PANJIA-A	1.059	1.039
HUOLINHE COAL-A	1.361	1.200
TAIYUAN COAL G-A	1.334	1.149
ANHUI HENGYUAN-A	1.287	1.006
INNER MONGOLIA-B	1.256	0.731
	Average of the Unlevered Beta :	**1.004**

The average of the unlevered betas of the comparable companies of 1.004 was then being relevered based on TNE's corporate tax rate of 25% and the expected debt-to-equity ratio of 0% applied to TNE.

3. The market risk premium (MRP) is the implied risk premium expected from the market using forecasted growth rates, earnings, dividends, payout ratios and current values. It represents the additional return required by an investor as compensation for investing in equities rather than a risk-free instrument. Since Mongolian Stock Exchange is not active and mature to reflect the market risk premium accurately and timely, the market risk premium was computed using the following formula:

$MRP = MMBP + CRP$

Where:

MRP	=	market risk premium *(Note 1)*
MMBP	=	mature market's base premium
CRP	=	country risk premium

The base premium on mature market was the long term return on the United States market of 5.70%. One approach to estimate the country risk premium was computed using the following formula:

$CRP = (MMBP) * (\sigma_{LC} / \sigma_{US} - 1)$

Where:

CRP	=	country risk premium
MMBP	=	mature market's base premium (i.e. the United States')
σ_{LC}	=	Volatility of the major index of a specific country
σ_{US}	=	Volatility of the major index of the United States

Under this approach, the country risk premium is assessed by the additional volatility comparing with a mature market then multiplying the mature market's base premium since a higher volatility generally associated with more risk. Since Mongolian Stock Exchange is not actively traded and many Mongolia-based companies go listed in the PRC's stock exchanges, the volatility was calculated based on the PRC market. The country risk premium was then calculated as 1.18%.

Another approach to estimate the country risk premium is based on the "Country Default Spreads and Risk Premiums" issued by Aswath Damodaran on January 2010. The country risk premium for Moody's rating of B1's country (in which the group Mongolia belongs to) was 6.75%. The basis of this approach is similar to the previous one, except that it uses the country bond as a base instead of the U.S. equity market. This approach assumes that investors are more likely to choose between local bonds and equity, whereas the previous one approach assumes that the choice is across equity markets. By averaging the results from the 2 approaches, the country risk premium was 3.96%. Thus, the market risk premium was 9.66%.

(II) Weight of debt and equity

The average weight of debt of the industry comparables was around 16%. As the Company has not decided the intended capital structure of TNE at this stage, 0% of debt was assumed for prudence purpose. As a result, the weight of equity was assumed to be 100%.

The Discount for Lack of Marketability

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted into cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in a closely held asset. Ownership interests in closely held assets are typically not readily marketable compared to similar interests in publicly listed companies. Therefore, a share in a privately held asset is usually worth less than an otherwise comparable share in a publicly listed company.

Based on various empirical researches, the corresponding discount should be within a range of 25-40%. Since TNE is a commodity company in which commodity has a bigger and more liquid market than other business types and TNE's 100% controlling interest is far more marketable than a minority interest in most cases, 25% discount for lack of marketability is adopted in our valuation.

SENSITIVITY ANALYSIS

A sensitivity analysis is a technique used to determine how different values of an independent variable will impact a particular dependent variable (i.e. the market value of the subject asset) under a given set of assumptions. The sensitivity analysis on the percent changes in the market value of the 100% equity interest in TNE in respect of a 1% increase or decrease in the discount rate were as follows:

Change in Discount Rate	**Applied Discount Rate**	**Market Value** *(US$)*
-1%	13.42%	350,000,000
0%	14.42%	320,000,000
+1%	15.42%	300,000,000

VALUATION COMMENTS

For the purpose of our valuation and in arriving at our opinion of value, we referred to the information provided by the senior management of the Company to estimate the value of TNE. We have also sought and received confirmation from the Company that no material facts were omitted from the information supplied.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others, which have been used in formulating this analysis.

REMARKS

Unless otherwise stated, all money amounts stated herein are in United States Dollars (US$).

CONCLUSION OF VALUE

Our conclusion of value is based on accepted valuation procedures and methodologies that rely substantially on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Further, whilst the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company, TNE or us.

Based on our investigation and analysis outlined in this report, it is of our opinion that the market value of a 100% equity interest in TNE as at 31 March 2010 was **US$320,000,000 (UNITED STATES DOLLARS THREE HUNDRED AND TWENTY MILLION ONLY)**.

We hereby certify that we have neither present nor prospective interest in the Company, TNE, the Mine or the value reported.

This report is subject to the limiting conditions attached.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Dr. Tony C. H. Cheng
BSc, MUD, MBA(Finance), MSc(Eng), PhD(Econ), FCIM, FRSM, SICME, SIFM, MHKIS, MCIArb, AFA, MASCE, MIET, MIEEE, MASME, MIIE, MASHRAE, MAIC
Managing Director

Marco T. C. Sze
B.Eng(Hon), PGD(Eng), MBA(Acct), CFA, AICPA/ABV, RBV
Director

Notes:

1. Dr. Tony C. H. Cheng serves as the Chairman of Institute of Mechanical Engineers, China and is a member of the Hong Kong Institute of Surveyors (General Practice), a member of the American Society of Civil Engineers, a member of the American Society of Mechanical Engineers and a member of Institute of Industrial Engineers (U.K.). He has about 5 years' experience in valuing similar assets or companies engaged in similar business activities as those of TNE worldwide.

2. Mr. Marco T. C. Sze is a holder of Chartered Financial Analyst, a member of the American Institute of Certified Public Accountants (AICPA) and is accredited in Business Valuation by the AICPA. In addition, he is a Registered Business Valuer under the Hong Kong Business Valuation Forum. He has over 3 years' experience in valuing similar assets or companies engaged in similar business activities as those of TNE in Hong Kong, the People's Republic of China and the Asia-Pacific Region.

Contributing Valuer:
Paul C.Y. Lau
BEng (Hon), MSc (Eng), MSc (Finance),
MIStructE

Set out below are the texts of reports from Grant Thornton and Optima Capital Limited in connection with the cash flow forecasts underlying the valuation of TNE as at 31 March 2010 prepared by BMI Appraisals Limited for the purpose of inclusion in this circular.

(A) REPORT FROM GRANT THORNTON

Grant Thornton
均富

Member of Grant Thornton International Ltd

12 May 2010

The Directors
Ming Hing Waterworks Holdings Limited
Unit 1809-12, Telford House
16 Wan Hoi Road
Kowloon Bay
Hong Kong

Dear Sirs,

We have examined the arithmetical accuracy of the calculations of the discounted cash flow forecast underlying the valuation of TNE (the "Project") as of 31 March 2010 (hereinafter referred to as the "Underlying Forecast"), the valuation of which is set out in Appendix V to the circular of Ming Hing Waterworks Holdings Limited (the "Company") dated 12 May 2010 (the "Circular").

Responsibilities

The directors of the Company (the "Directors") are responsible for the preparation of the Underlying Forecast and the reasonableness and validity of the assumptions based on which the Underlying Forecast are prepared (the "Assumptions").

It is our responsibility to form an opinion, based on our work on the arithmetical accuracy of the calculations of the Underlying Forecast and to report our opinion solely to you, as a body, for the purpose of reporting under paragraph 14.62 (2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and for no other purpose. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work. Because the Underlying Forecast relates to cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events as detailed in Appendix V to the Circular and management actions that cannot be confirmed and verified in the same way as past results. These Assumptions may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Underlying Forecast and the variation may be material. Accordingly, we have not reviewed, considered or concluded any work on the reasonableness and the validity of the Assumptions and do not express opinion whatsoever thereon.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to the procedures under Auditing Guideline 3.341 "Accountants' report on profit forecasts", as applicable, issued by the Hong Kong Institute of Certified Public Accountants. We have examined the arithmetical accuracy of the calculations of the Underlying Forecast. Our work has been undertaken solely to assist the Directors in evaluating whether the Underlying Forecast, so far as the arithmetical accuracy of the calculations are concerned, has been properly compiled in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation on the Project.

Opinion

In our opinion, so far as the arithmetical accuracy of the calculations are concerned, the Underlying Forecast has been properly compiled in accordance with the Assumptions made by the Directors.

Yours faithfully,

Grant Thornton
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

(B) REPORT FROM OPTIMA CAPITAL

Suite 1501, 15th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

12 May 2010

The Directors
Ming Hing Waterworks Holdings Limited
Unit 1809-12, Telford House
16 Wan Hoi Road
Kowloon Bay
Hong Kong

Dear Sirs,

We refer to the valuation prepared by BMI Appraisals Limited ("BMI") in relation to the fair value of the 100% equity interest in TNE (the "Fair Value"). The report of BMI is included in Appendix V to a circular dated 12 May 2010 (the "Circular") issued by the Company. Capitalised terms used herein shall the same meanings as those defined in the Circular unless the context herein requires otherwise.

We note that the Fair Value, which has been developed based on discounted cash flow analysis, is regarded as profit forecast under Chapter 14 of the Listing Rules.

We note that the Fair Value is developed based on, among other things, the cash flow forecast in relation to TNE and the estimated discount rate which is based on the estimated weighted average cost of capital after taking consideration of relevant risk free rate and certain risk premium.

We have discussed with the management of the Company and BMI regarding the bases and assumptions of the valuation, and have reviewed the letter issued by Grant Thornton dated 12 May 2010 as set out in Appendix VI (A) to the Circular regarding whether the cash flow forecast, so far as the arithmetical accuracy of the calculations are concerned, has been properly compiled in accordance with the assumptions made by the Directors.

On the basis of the foregoing and the arithmetical accuracy of the calculations reviewed by Grant Thornton, we are of the opinion that the cash flow forecast underlying the Fair Value, for which the management of the Company is solely responsible, has been made after due care and consideration.

Yours faithfully
For and on behalf of
Optima Capital Limited
Mei H. Leung
Chairman

The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from Asset Appraisal Limited, an independent valuer, in connection with its valuation as at 31 March 2010 of the properties interests held by the Group.

Asset Appraisal Limited
資產評值顧問有限公司

Rm 802 8/F On Hong Commercial Building
No.145 Hennessy Road Wanchai HK
香港灣仔軒尼詩道145號
安康商業大廈8樓802室
Tel: (852) 2529 9448 Fax: (852) 3521 9591

12 May 2010

The Board of Directors
Ming Hing Waterworks Holdings Limited
Units 1809-12
18th Floor
16 Wang Hoi Road
Kowloon Bay
Hong Kong

Dear Sirs,

Re: Valuation of Properties in Hong Kong, the People's Republic of China (the "PRC") and Mongolia.

In accordance with the instructions from **Ming Hing Waterworks Holdings Limited** (the "Company") to value the property interests (the "Properties") held by the Company or its subsidiaries (the Company and its subsidiaries are altogether referred to as the "Group") and Well Delight Holdings Limited and its subsidiaries (together referred to as the "Target Group"), we confirm that we have inspected the Properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the Properties as at 31 March 2010 (the "date of valuation").

BASIS OF VALUATION

Our valuation of the Properties represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

TITLESHIP

We have been provided with copies of legal documents regarding the Properties. We have also caused search to be made for those properties situated in Hong Kong. However, we have not verified ownership of the Properties and the existence of any encumbrances that would affect their ownership.

We have also relied upon the legal opinion provided by the PRC legal adviser, namely Guangdong SD & Partners (廣東晟典律師事務所) (the "PRC legal adviser") and Mongolia legal adviser, namely Anand & Batzaya Advocate (the "Mongolia legal adviser") to the Company on the relevant laws and regulations in the PRC and Mongolia on the nature of the owner's land use rights in the Property. Its material content has been summarized in the valuation certificate attached herewith.

VALUATION METHODOLOGY

The Property No. 1 are valued by the comparison method where comparison based on price information of comparable properties. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

We have attributed no commercial value to the property no. 2 and 3 because of, as advised by the lawyer, Camex LLC has no right to transfer the property without the approval of the relevant authorities.

We have attributed no commercial value to the property interests which are rented and occupied by the Group in Hong Kong, Mongolia, the PRC and Singapore, either because of their non-assignable nature of the interests or because there are prohibition against subletting and/or assignment contained in the respective leases and/or tenancy agreements or otherwise due to the lack of substantial profit rent.

ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the Properties on the market without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the values of the Properties.

As the Properties are held by the owners by means of long term Land Use Rights granted by the Government, we have assumed that the owner has free and uninterrupted rights to use the Properties for the whole of the unexpired term of the land use rights.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

LIMITING CONDITIONS

No allowance has been made in our report for any charges, mortgages or amounts owing on the Properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, tenancy and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the floor areas in respect of the Properties but have assumed that the floor areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have inspected the exterior and, where possible, the interior of the buildings and structures of the Properties. However, no structural survey has been made for them. In the course of our inspection, we did not note any apparent defects. We are not, however, able to report whether the buildings and structures inspected by us are free of rot, infestation or any structural defect. No test was carried out on any of the building services and equipment.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

In valuing the properties, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

Unless otherwise stated, all monetary sums stated in this report are in Hong Kong Dollars (HK$), Renminbi (RMB), Mongolian Tugrik (MNT), US Dollars (US$) and Singapore Dollars (SGD).

Our summary of valuation and valuation certificate are attached herewith.

Yours faithfully,
for and on behalf of
Asset Appraisal Limited
Sandra Lau
MFin MHKIS AAPI RPS(GP)
Director

Sandra Lau is a member of the Hong Kong Institute of Surveyors, an Associate of the Australian Property Institute and a Registered Professional Surveyor in General Practice. She is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Forum and has over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

SUMMARY OF VALUATION

	Property	Market value in existing state as at 31 March 2010 *RMB*	Interest attributable to the Group as at 31 March 2010 *%*	Value of property interest attributable to the Group as at 31 March 2010 *RMB*
Group I – Properties held and occupied by the Group in the PRC				
1.	Land, Buildings and Structures of Water Treatment Works located in Pajiangkou Village, Feilaixia Town, Qingxin County, Qingyuan City Guangdong Province, the PRC.	1,273,000	98.96	1,260,000
	Sub Total:	**1,273,000**		**1,260,000**

	Property	Market value in existing state as at 31 March 2010 *MNT/US$*	Interest attributable to the Target Group as at 31 March 2010 *%*	Value of property interest attributable to the Target Group as at 31 March 2010 *MNT/US$*
Group II – Properties held and occupied by the Target Group in Mongolia				
2.	A parcel of land located at Bayanzurkh District, Ulan Bator City, Mongolia	No Commercial Value	100	No Commercial Value
3.	A parcel of land located at Shaamer-Soum, Selenge Province, Mongolia	No Commercial Value	100	No Commercial Value
	Sub Total:	**No Commercial Value**		**No Commercial Value**

	Property	Market value in existing state as at 31 March 2010 *HK$/RMB*	Interest attributable to the Group as at 31 March 2010 *%*	Value of property interest attributable to the Group as at 31 March 2010 *HK$/RMB*
Group III – Property rented by the Group in Hong Kong and PRC				
4.	Unit 9, 10, 11 and 12 on 18th Floor, Telford House, No. 16 Wang Hoi Road, Kowloon, Hong Kong.	No Commercial Value	–	No Commercial Value
5.	Room B on 5th Floor, HKI Building, No. 56 Hung To Road, Kowloon, Hong Kong.	No Commercial Value	–	No Commercial Value
6.	Room 502, Level 5, Dian Xin Shi Ye Complex Building, No. 23, Kangle Road, Xincheng District, Qingyuan City, Guangdong Province, the PRC.	No Commercial Value	–	No Commercial Value
7.	Shop on Level 1, No. 222 Jiangkou Main Street, Jiangkou Town, Feilaixia, Qingxin County, Qingyuan City, Guangdong Province, the PRC.	No Commercial Value	–	No Commercial Value
	Sub Total:	**No Commercial Value**		**No Commercial Value**

	Property	Market value in existing state as at 31 March 2010 *MNT/US$*	Interest attributable to the Target Group as at 31 March 2010 *%*	Value of property interest attributable to the Target Group as at 31 March 2010 *MNT/US$*
Group IV – Property rented by the Target Group in Mongolia				
8.	Apartment No. 35 with 3 rooms at building 19A, 1st Khoroo, Sukhbaatar District, Ulan Bator City, Mongolia.	No Commercial Value	–	No Commercial Value
9.	Apartment No. 13 with 3 rooms at building No. 26 "1" with Garage No. 17, 2nd Khoroo, Sukhbaatar District, Ulan Bator City, Mongolia.	No Commercial Value	–	No Commercial Value
10.	Apartment No. 15 with 4 rooms at building 26-1A, 2nd Khoroo, Sukhbaatar District, Ulan Bator City, Mongolia.	No Commercial Value	–	No Commercial Value
11.	2nd Floor, Bayangol Hotel Office, 1st Khoroo, Chinggis Avenue, Sukhbaatar District, Ulan Bator City, Mongolia.	No Commercial Value	–	No Commercial Value
	Sub Total:	**No Commercial Value**	**–**	**No Commercial Value**

	Property	Market value in existing state as at 31 March 2010	Interest attributable to the Target Group as at 31 March 2010	Value of property interest attributable to the Target Group as at 31 March 2010
		SGD	*%*	*SGD*
Group V – Property rented by the Target Group in Singapore				
12.	101 Thomson Road #16-05 United Square, Singapore 307591, Singapore.	No Commercial Value	–	No Commercial Value
	Sub Total:	**No Commercial Value**		**No Commercial Value**
	Grand Total:	**RMB1,273,000**		**RMB1,260,000**

VALUATION CERTIFICATE

Group I – Property held and occupied by the Group in the PRC

Property	Description	Particular of occupancy	Market Value in Existing State as at 31 March 2010 *RMB*
1. Land, Buildings and Structures of Water Treatment Works located in Pajiangkou Village, Feilaixia Town, Qingxin County, Qingyuan City Guangdong Province, the PRC.	The property comprises a parcel of land with a site area of 800 square metres on which a 3 storey composite building and a water treatment building are erected. They were both completed in 1999. The aforesaid buildings have a total gross floor area of 666 square metres. The land use rights of the Property have been granted for a term expiring on 9 September 2054.	The property is currently occupied by the Company as water treatment plant.	1,273,000 (100%) 1,260,000 (98.96%)

Notes:

1. As revealed by the Land Use Rights Certificate (Ref: Qing Xin Guo Yong (2004) Di No. 093583 (清新國用(2004)第093583號)) dated 10 September 2004, the subject land parcel with an area of 800 square metres is held by Qingxin County Jiangkou Xingxun Water Co., Ltd. (清新縣江口興迅自來水有限公司) {now known as 清新縣飛來峽發興自來水有限公司}, a 98.96% owned subsidiary of the Group, for the land use right term expiring on 9 September 2054 for water treatment plant purpose.

2. In the course of our valuation, we have assumed that the aforesaid completed buildings have been duly examined and approved by the relevant government authorities as safe for use and in compliance with all the relevant requirements for industrial use. In addition, we have also assumed that the Building Ownership Certificates of the aforesaid buildings in the name of 清新縣飛來峽發興自來水有限公司 will be issued without payment of any additional land premium or substantial fee to government authorities in due course.

3. The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the opinion of the Company's legal advisers on the PRC law is as follows:

Land Use Right Certificate	:	Yes
Building Ownership Certificate	:	No

4. The opinion from the PRC legal adviser of the Company on the property is as follows:

   i. The land use rights of the property with an registered land area of 800 square metres have been granted to Qingxin County Jiangkou Xingxun Water Co., Ltd. (清新縣江口興迅自來水有限公司) for water treatment plant purpose;

   ii. Qingxin County Jiangkou Xingxun Water Co., Ltd. (清新縣江口興迅自來水有限公司) has been renamed to (清新縣飛來峽發興自來水有限公司). Although the rename registration have not yet been completed, (清新縣飛來峽發興自來水有限公司) shall have the land use rights of the property. (清新縣飛來峽發興自來水有限公司) shall complete the registration of the land use rights of the property.

VALUATION CERTIFICATE

Group II – Property held and occupied by the Target Group in Mongolia

Property	Description	Particular of occupancy	Market Value in Existing State as at 31 March 2010 *MNT/US$*
2. A parcel of land located at Bayanzurkh District, Ulan Bator City, Mongolia	The property comprises one parcel of land with a site area of about 20,000 square metres. The property is held by the Target Group for a term of 5 years commencing on 31 October 2008 at a quarterly rent of MNT440,000.	The property was vacant.	No Commercial Value

Notes:

1. Pursuant to a Land Use Certificate No. 0000659 dated 24 October 2008, CAMEX LLC, an indirectly wholly-owned subsidiary of the Target Group, was permitted to use the property with the site area of 20,000 square metres for a term of 5 years commencing on 31 October 2008 at a quarterly rent of MNT440,000 for the purpose of shelter of legal entity.

2. The opinion from the Mongolia legal adviser of the Company on the property is as follows:

   i. CAMEX LLC has land use rights certificate No. 0000659 with granted the land use rights on 20,000 square metres land plot located at Bayanzurkh district of Ulaanbaatar city for purpose of Shelter of the legal entity for 5 years on 31 October 2008. The certificate has issued on basis of resolution No. 324 by the Governor of Bayanzurkh district dated 24 October 2008.

   ii. Land use agreement dated 31 October 2008 is executed between Altankbundaga Batmunkh, a land officer of Bayanzurkh district and Dennis Lim Siong, an Executive director of CAMEX LLC and regulated the rights and responsibilities of the parties.

   iii. Land Use Rights Certificate issued to Camex has been duly granted by the relevant land authority and is in full force and effect and Camex is the owner of and has good title to the property and free of any encumbrances or defects.

   iv. Camex LLC has timely paid all annual fees in respect of the Land Use Rights Certificate.

   v. The property is used in compliance with land purpose specified in the Land use agreement.

VALUATION CERTIFICATE

Property	Description	Particular of occupancy	Market Value in Existing State as at 31 March 2010 *MNT/US$*
3. A parcel of land located at Shaamer-Soum, Selenge Province, Mongolia	The property comprises one parcel of land with a site area of about 12 hectares (120,000 square metres). The property is held by the Group for a term of 15 years commencing on 22 June 2007.	The property was vacant.	No Commercial Value

Notes:

1. Pursuant to a Land Use Certificate No. 0120463 dated 14 June 2007, CAMEX LLC, an indirectly wholly-owned subsidiary of the Target Group, was permitted to use the property with the site area of 12 hectares (120,000 square metres) for a term of 15 years commencing on 22 June 2007 at a quarterly rent of MNT96,000 for the purpose of plant construction.

2. The opinion from the Mongolia legal adviser of the Company on the property is as follows:

   i. CAMEX LLC has land possession rights certificate No. 0120463 which granted land possession rights on 12 hectares land plot located at Shaamar soum of Selenge aimag for purpose of Plant construction for 15 years on 22 June 2007. The certificate has issued on basis of resolution No. 193 by the Governor of Shaamar soum of Selenge aimag dated 14 June 2007.

   ii. Land possession agreement dated 22 June 2007 is executed between Gantuya Mart, a land officer of Soum and Tugsbayar Lhagva, a manager of CAMEX LLC and regulated the rights and responsibilities of the parties. Quarterly land fee is MNT96,000

   iii. Camex has submitted a request to change the land possession right into land use right to the Shaamar soum land department because Camex became foreign invested company after granted the land possession right. The related authorities of the Shaamar soum reviewed the request and granted a land use right certificate to Camex LLC on April 15, 2010. The new land use right is valid for 5 years.

   iv. CAMEX LLC has timely paid all annual fees in respect of the Land Use Certificate.

   v. The property is used in compliance with land purpose specified in the Land use agreement.

VALUATION CERTIFICATE

Group III – Property rented by the Group in Hong Kong and PRC

Property	Description	Particular of occupancy	Market Value in Existing State as at 31 March 2010 *RMB*
4. Unit 9, 10, 11 and 12 on 18th Floor, Telford House, No. 16 Wang Hoi Road, Kowloon, Hong Kong. Situated within New Kowloon Inland Lot No. 5971.	The property comprises four office units on 18th floor of a 23-storey commercial building which was completed in 1994. The gross floor area of the property is approximately 5,236 square feet (approximately 486.44 square metres) The property is held by the Group under a tenancy for a term of three years commencing from 1 April 2008 to 31 March 2011 for office use at a monthly rental of HK$82,000 inclusive of management fee and government rent but exclusive of rates and air-conditioning charges.	The property is currently occupied by the Group as offices.	No Commercial Value

Notes:

1. According to the records in the relevant Land Registry, the registered owner of the property is Grand Media Limited, which is an independent third party.

2. The tenant of the property is Ming Hing Waterworks Engineering Company Limited, which is a wholly-owned subsidiary of the Group.

3. The property falls within an area zoned for "Commercial" on Approved Ngau Tau Kok and Kowloon Bay Outline Zoning Plan No. S/K13/25.

VALUATION CERTIFICATE

Property	Description	Particular of occupancy	Market Value in Existing State as at 31 March 2010 *RMB*
5. Room B on 5th Floor, HKI Building, No. 56 Hung To Road, Kowloon, Hong Kong. Situated within Kwun Tong Inland Lot No. 290.	The property comprises one industrial unit on 5th floor of a multi-storey industrial building which was completed in about 1965. The saleable area of the property is approximately 4,398 square feet (approximately 408.58 square metres) The property is held by the Group under a tenancy for a term of two years commencing from 1 April 2009 to 31 March 2011 for industrial use at a monthly rental of HK$38,800 inclusive of rates, government rent, management fee but exclusive of electricity and water charges.	The property is currently occupied by the Group.	No Commercial Value

Notes:

1. According to the records in the relevant Land Registry, the registered owner of the property is H.K.I. Company Limited, which is an independent third party.

2. The tenant of the property is Ming Hing Civil Contractors Limited, which is a wholly-owned subsidiary of the Group.

3. The property falls within an area zoned for “Other Specified Uses (Business)” on Approved Kwun Tong (South) Outline Zoning Plan No. S/K14S/16.

VALUATION CERTIFICATE

Property	Description	Particular of occupancy	Market Value in Existing State as at 31 March 2010 *RMB*
6. Room 502, Level 5, Dian Xin Shi Ye Complex Building, No. 23, Kangle Road, Xincheng District, Qingyuan City, Guangdong Province, the PRC.	The property comprises one office unit on Level 5 of an 8-storey commercial building which was completed in about 2002. The gross floor area of the property is approximately 77 square metres. The property is held by the Group under a tenancy for a term of one year commencing from 1 August 2009 to 31 July 2010 for office use at a monthly rental of RMB1,540 exclusive of management fee and other outgoings.	The property is currently occupied by the Group.	No Commercial Value

Notes:

1. Pursuant to a tenancy agreement dated 1 August 2009, (清遠市新興自來水淨化有限公司), a wholly-owned subsidiary of the Group, rented the property from (廣東公誠物業管理有限公司清遠分公司) which is an independent third party.

2. The opinion from the PRC legal adviser of the Company on the property is as follows:

   i. As revealed from the documents provided by the Company, 廣東省電信實業集團公司 is the legal owner of the property.

   ii. 廣東公誠物業管理有限公司清遠分公司 (as trustee of 廣東省電信實業集團公司) have the right to sign the tenancy agreement with 清遠市新興自來水淨化有限公司.

VALUATION CERTIFICATE

Property	Description	Particular of occupancy	Market Value in Existing State as at 31 March 2010 *RMB*
7. Shop on Level 1, No. 222 Jiangkou Main Street, Jiangkou Town, Feilaixia, Qingxin County, Qingyuan City, Guangdong Province, the PRC.	The property comprises one shop unit on Ground floor of a 3-storey composite building which was completed in about 1994. The gross floor area of the property is approximately 78 square metres. The property is held by the Group under a tenancy for a term of two years commencing from 1 August 2008 to 31 July 2011 at a monthly rental of RMB500 exclusive of electricity, water charges and other outgoings.	The property is currently occupied by the Group as a service centre.	No Commercial Value

Notes:

1. Pursuant to a tenancy agreement dated 1 August 2008, (清新縣飛來峽發興自來水有限公司), a 98.96% owned subsidiary of the Group, rented the property from (何志堅) which is an independent third party.

2. The opinion from the PRC legal adviser of the Company on the property is as follows:

   i. As revealed from the documents provided by the Company, 何志堅 is the legal owner of the property. However, as revealed from the relevant title document, the land use right registration number was not provided from this relevant title document due to the historical issue. It might have adverse effect to the land use right title of the property if this historical issue has to be rectified.

VALUATION CERTIFICATE

Group IV – Property rented by the Target Group in Mongolia

Property	Description	Particular of occupancy	Market Value in Existing State as at 31 March 2010 *MNT/US$*
8. Apartment No. 35 with 3 rooms at Building 19A, 1st Khoroo, Sukhbaatar District, Ulan Bator City, Mongolia.	The property comprises a residential apartment of a multi-storey residential building which was completed in about 2005. The property has a floor area of approximately 50.72 square metres. The property is held by the Target Group under a tenancy for a term of 12 months commencing on 1 January 2009 at a monthly rental of US$700 inclusive of water, security and maintenance costs but exclusive of electricity and telephone expenses.	The property is currently occupied for residential use.	No Commercial Value

Notes:

1. Pursuant to a residential rent agreement entered into between Mrs. Dulmaa and Mr. Tsogtsaikhan (an independent third party) and CAMEX LLC (an indirectly wholly-owned subsidiary of the Target Group), the property was rented by the latter party for a term of 11 months commencing on 1 January 2009 at a monthly rental of US$700 inclusive of water, security and maintenance costs but exclusive of electricity and telephone expenses for residential use.

2. The opinion from the Mongolia legal adviser of the Company on the property is as follows:

   i. The rent agreement is executed between Mrs. Dulmaa and Mr. Tsogtsaikahn (Landlord) and CAMEX LLC (Tenant) on 1 January 2010.

   ii. The property shall be rented to the tenant from 1 January 2010 for 12 months.

   iii. By signing the rent agreement, the landlord insures that this lease in authorized by the Municipality of Ulaanbaatar and that appropriate taxes have been paid.

   iv. Rent agreement is valid and enforceable under Mongolian laws.

   v. Rent agreement is not required to be registered at the Immovable Property Registration Office.

   vi. CAMEX LLC has timely paid all lease and rent fees in accordance with the rent agreement.

VALUATION CERTIFICATE

Property	Description	Particular of occupancy	Market Value in Existing State as at 31 March 2010 *MNT/US$*
9. Apartment No. 13 with 3 rooms at building No. 26 "1" with Garage No. 17, 2nd Khoroo, Sukhbaatar District, Ulan Bator City, Mongolia.	The property comprises a residential apartment and a garage of a 7-storey residential building which was completed in about 2006. The property has a floor area of approximately 94.5 square metres excluding the area of the car parking space. The property is held by the Target Group under a tenancy for a term of 6 months commencing on 1 October 2009 at a monthly rental of MNT1,330,000 inclusive of electricity and water charges but exclusive of telephone expenses.	The property is currently occupied for residential and car parking uses.	No Commercial Value

Notes:

1. Pursuant to a residential rent agreement entered into between S.Tyua (An independent third party) and CAMEX LLC (an indirectly wholly-owned subsidiary of the Target Group), the property was rented by the latter party for a term of 6 months commencing on 1 October 2009 at a monthly rental of MNT1,330,000 inclusive of electricity and water charges but exclusive of telephone expenses for residential use.

2. The opinion from the Mongolia legal adviser of the Company on the property is as follows:

   i. The rent agreement is executed between S. Tyua (Landlord) and CAMEX LLC (Tenant) no 1 October 2009 for 6 months for the apartment 13 with 3 rooms at building No. 26 "1", at 2nd Khoroo is Sukhbantar district with Garage No. 17.

   ii. According to the rent agreement, it is prohibited to transfer the apartment to a third party. The Tenant shall maintain and keep the apartment and will not make any major constructional change to the apartment.

   iii. Rent agreement is valid and enforceable under Mongolian laws.

   iv. Rent agrement is not required to be registered at the Immovable Property Registration Office.

   v. CAMEX LLC has timely paid all rent fee in accordance with the rent agreement.

VALUATION CERTIFICATE

Property	Description	Particular of occupancy	Market Value in Existing State as at 31 March 2010 *MNT/US$*
10. Apartment No. 15 with 4 rooms at building 26-1A, 2nd Khoroo, Sukhbaatar District, Ulan Bator City, Mongolia.	The property comprises a residential apartment of a 4-storey residential building which was completed in about 2006. The property has a floor area of approximately 91 square metres. The property is held by the Target Group under a tenancy for a term of 12 months commencing on 1 October 2009 at a monthly rental of US$1,300 inclusive of water, security and maintenance costs but exclusive of electricity and telephone expenses.	The property is currently occupied for residential use.	No Commercial Value

Notes:

1. Pursuant to a residential lease agreement entered into between Mrs. S. Demberel (An independent third party) and CAMEX LLC (an indirectly wholly-owned subsidiary of the Target Group) dated 1 October 2009, the property was rented by the latter party for a term of 12 months commencing on 1 October 2009 at a monthly rent of US$1,300 inclusive of water, security and maintenance costs but exclusive of electricity and telephone expenses for residential use.

2. The opinion from the Mongolia legal adviser of the Company on the property is as follows:

   i. The rent agreements is executed between Mrs. S. Demberel (Landlord) and CAMEX LLC (Tenant) on 1 October 2009.

   ii. The property shall be rented to the tenant from 1 October 2009 for 12 months.

   iii. By signing of the Rent agreement, the landlord insures that this rent in authorized by the Municipality of Ulaanbaatar and that appropriate taxes have been paid.

   iv. Rent agreement is valid and enforceable under Mongolian laws.

   v. Rent agreement is not required to be registered at the Immovable Property Registration Office.

   vi. CAMEX LLC has timely paid all rent fee in accordance with the rent agreement.

VALUATION CERTIFICATE

Property	Description	Particular of occupancy	Market Value in Existing State as at 31 March 2010 *MNT/US$*
11. 2nd Floor, Bayangol Hotel Office, 1st Khoroo, Chinggis Avenue, Sukhbaatar District, Ulan Bator City, Mongolia.	The property comprises an office suite of an 11-storey office building which was completed in about 1964. The property has a floor area of approximately 90 square metres. The property is held by the Target Group under a tenancy for a term commencing on 1 July 2009 and expiring on 1 January 2010 at a monthly rental of US$990 inclusive of heating, electricity and water charges.	The property is currently occupied for office use.	No Commercial Value

Notes:

1. Pursuant to an office lease agreement entered into between Z. Tserenchimeg (Represetative of Bayangol Hotel) (An independent third party) and CAMEX LLC (an indirectly wholly-owned subsidiary of the Target Group) dated 1 January 2007 and a supplementary rental agreement dated 1 July 2009, the property was rented by the latter party for a term commencing on 1 July 2009 and expiring on 1 January 2010 at a monthly rental of US$990 inclusive of heating, electricity and water charges for office use.

2. The opinion from the Mongolia legal adviser of the Company on the property is as follows:

   i. Lease agreement for the property is executed between Z. Tserenchimeg, a senior financial manager on behalf of Bayangol Hotel (Lessor) and Ya Batsukh from CAMEX LLC (Lessee). The Lessor shall lease 90 square metres at Bayangol hotel office from 1 January 2007 for 1 year. The amendment of the lease agrement is executed on 1 July 2009 and extended its term for 6 months. Parties to the lease agreement extended the leases agreement to 1 January 2010 and the rental remains unchanged.

   ii. If the lessee violated its contractual obligation seriously, used the office for other purpose which is intended, transfer illegally to a third party, become insolvent and became incapable to possess, the lessor may terminate the agreement solely and demand to reimburse caused damage of the lessor.

VALUATION CERTIFICATE

Group V – Property rented by the Target Group in Singapore

Property	Description	Particular of occupancy	Market Value in Existing State as at 31 March 2010 *SGD*
12. 101 Thomson Road #16-05 United Square, Singapore 307591, Singapore.	The property comprises a office unit on 16th floor of a 32-storey office building which was extensively refurbished in 2002. The property has a floor area of approximately 1,513 square feet. The property is held by the Group under a tenancy for a term of two years commencing from 1 July 2009 to 30 June 2011 at a quarterly rental of SGD17,021.25 exclusive other charges or expenses.	The property is currently occupied for office use.	No Commercial Value

Notes:

1. Pursuant to a office lease agreement enter into between Genco Holdings Pte Ltd. (an independent third party) and Central Asia Mineral Exploration Pte Ltd. (a wholly-owned subsidiary of the Group) dated 21 August 2009, the property was rented by the latter party for a term commencing on 1 July 2009 and expiring on 30 June 2011 at a quarterly rent of SGD17,021.25 exclusive other charges or expenses.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; (ii) immediately after Completion and the increase in authorised share capital becoming effective and the issue of the Consideration Shares, the Placing Shares (assumed to be 4,000,000,000 Shares) and full conversion of the Convertible Note at the Initial Conversion Price (subject to adjustment) (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Options and converted upon conversion of the Compensation Note); and (iii) immediately after Completion and the increase in authorised share capital becoming effective and the issue of the Consideration Shares, the Placing Shares (assumed to be 4,000,000,000 Shares) and full conversion of the Convertible Note at the Initial Conversion Price (subject to adjustment) and the Compensation Note at the initial conversion price of HK$0.31 per Conversion Share (subject to adjustment) (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Options), are set out as follows:

(i) As at the Latest Practicable Date

Authorised share capital:

		HK$
2,000,000,000	Shares	100,000,000

Issued and fully paid share capital:

826,480,000	Shares	41,324,000

(ii) Immediately after Completion and the increase in authorised share capital becoming effective and the issue of the Consideration Shares, the Placing Shares (assumed to be 4,000,000,000 Shares) and full conversion of the Convertible Note at the Initial Conversion Price (subject to adjustment) (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Options and converted upon conversion of the Compensation Note)

Authorised share capital:

		HK$
50,000,000,000	Shares	2,500,000,000

Issued and fully paid share capital:

826,480,000	Shares	41,324,000.0
1,970,000,000	Consideration Shares	98,500,000.0
4,000,000,000	Placing Shares	200,000,000.0
4,336,818,182	Conversion Shares (assuming no adjustment on and full conversion of the Convertible Note)	216,840,909.1
11,133,298,182		556,664,909.1

(iii) Immediately after Completion and the increase in authorised share capital becoming effective and the issue of the Consideration Shares, the Placing Shares (assumed to be 4,000,000,000 Shares) and full conversion of the Convertible Note at the Initial Conversion Price (subject to adjustment) and the Compensation Note (at a maximum amount of HK$3,100 million) at the initial conversion price of HK$0.31 per Conversion Share (subject to adjustment) (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Options)

Authorised share capital:

		HK$
50,000,000,000	Shares	2,500,000,000

Issued and fully paid share capital:

826,480,000	Shares	41,294,000.0
1,970,000,000	Consideration Shares	98,500,000.0
4,000,000,000	Placing Shares	200,000,000.0
4,336,818,182	Conversion Shares (assuming no adjustment on and full conversion of the Convertible Note)	216,840,909.1
10,000,000,000	Conversion Shares (assuming no adjustment on and full conversion of the Compensation Note at a maximum amount of HK$3,100 million)	500,000,000.0
21,133,298,182		1,056,664,909.1

Save as disclosed above, the Company did not have any other options, warrants and other convertible securities or rights affecting the Shares as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS

(a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the following Directors had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which 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 or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules:

(i) Long position in the Shares

Name of Director	*Notes*	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of shareholding in the Company
Mr. YUEN Chow Ming	*1*	Interest of controlled corporation	453,888,000	54.92%
Mr. YUEN Wai Keung	*2*	Interest of controlled corporation	453,888,000	54.92%
		Personal	5,704,000	0.69%
Mr. SO Yiu Cheung	*3*	Interest of controlled corporation	453,888,000	54.92%
		Personal	3,000,000	0.36%

Notes:

(1) The 453,888,000 Shares are registered in the name of Robinhoods, of which Able Promise Holdings Limited ("**Able Promise**") is entitled to exercise, or control the exercise of, one-third of the voting power at general meetings of the Company. Able Promise is wholly-owned by Mr. YUEN Chow Ming, who is therefore deemed to be interested in these Shares under the SFO.

(2) The 453,888,000 Shares are registered in the name of Robinhoods, of which Foremost Time Holdings Limited ("**Foremost Time**") is entitled to exercise, or control the exercise of, one-third of the voting power at general meetings of the Company. Foremost Time is wholly-owned by Mr. YUEN Wai Keung, who is therefore deemed to be interested in these Shares under the SFO.

(3) The 453,888,000 Shares are registered in the name of Robinhoods, of which Group Honour Assets Limited ("**Group Honour**") is entitled to exercise, or control the exercise of, one-third of the voting power at general meetings of the Company. Group Honour is wholly-owned by Mr. SO Yiu Cheung, who is therefore deemed to be interested in these Shares under the SFO.

(ii) Beneficial interests in the shares of associated corporations

Name of Director	*Notes*	**Name of associated corporation**	**Number of shares held in the associated corporation**	**Approximate percentage of shareholding**
Mr. YUEN Chow Ming	*1*	Robinhoods	four	33.33%
		Able Promise	one	100%
Mr. YUEN Wai Keung	*2*	Robinhoods	four	33.33%
		Foremost Time	one	100%
Mr. SO Yiu Cheung	*3*	Robinhoods	four	33.33%
		Group Honour	one	100%

Notes:

(1) The four shares are held by Able Promise, a company wholly-owned by Mr. YUEN Chow Ming. Accordingly, Mr. YUEN Chow Ming is deemed to be interested in such shares in Robinhoods.

(2) The four shares are held by Foremost Time, a company wholly-owned by Mr. YUEN Wai Keung. Accordingly, Mr. YUEN Wai Keung is deemed to be interested in such shares in Robinhoods.

(3) The four shares are held by Group Honour, a company wholly-owned by Mr. SO Yiu Cheung. Accordingly, Mr. SO Yiu Cheung is deemed to be interested in such shares in Robinhoods.

(iii) Long position in the underlying Shares

Pursuant to the share option scheme adopted by the Company on 25 February 2006, certain Directors were granted share options to subscribe for the Shares, details of share options outstanding and exercisable as at the Latest Practicable Date were as follows:

Name of Director	Date of grant	Capacity	Number of underlying Shares comprised in the share options	Exercisable period	Exercise price per share
Mr. YUEN Chow Ming	25 August 2009	Beneficial owner	1,000,000	25 August 2009 to 31 August 2012	HK$0.385
Mr. YUEN Wai Keung	25 August 2009	Beneficial owner	1,000,000	25 August 2009 to 31 August 2012	HK$0.385
Mr. LIAO Cheung Tin, Stephen	25 August 2009	Beneficial owner	600,000	25 August 2009 to 31 August 2012	HK$0.385

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which 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 or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(b) Director's interests in assets, contracts or arrangements of the Group

On 5 March 2008, the Company entered into a lease agreement with Grand Media Limited ("**Grand Media**") whereby Grand Media agreed to lease office premises to the Company at a monthly rent of HK$82,000 for a term from 1 April 2008 to 31 March 2011, with an option to renew for a further term of three years at the prevailing market rental. Grand Media is a company incorporated in Hong Kong and owned as to 33.34% by Mr. YUEN Chow Ming and as to 33.33% by each of Mr. SO Yiu Cheung and Mr. YUEN Wai Keung, all of whom are executive Directors.

As at the Latest Practicable Date and save as disclosed above, (i) none of the Directors had any direct or indirect interest in any assets which have been, since 31 March 2009 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to the Latest Practicable Date, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group; and (ii) none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole.

4. SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Interests in the Shares and underlying Shares

Name of Substantial Shareholder	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of shareholding in the Company
Robinhoods	Beneficial owner	453,888,000	54.92%
Able Promise	Interest of controlled corporation	453,888,000	54.92%
Group Honour	Interest of controlled corporation	453,888,000	54.92%
Foremost Time	Interest of controlled corporation	453,888,000	54.92%

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company), including companies of which the Director/proposed directors is an employee, who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of 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 member of the Group.

5. LITIGATION

As at the Latest Practicable Date, a number of lawsuits and claims arising from normal course of business were lodged against the Group which remained outstanding. The lawsuits and claims are mainly in relation to personal injuries filed by employees of the Group or its subcontractors between June 2003 and December 2009. In the opinion of the Directors, sufficient insurance policies are maintained to cover the losses and damages, if any, arising from these lawsuits and claims and therefore these lawsuits and claims should not have any material adverse impact on the financial position of the Group.

Ming Hing Waterworks Engineering Company Limited ("MHWE"), a member of the Group, is being claimed for an amount of approximately HK$9.5 million under a construction and arbitration proceeding at the High Court of Hong Kong, which was initiated by an ex-subcontractor of the Group. Such proceeding is in respect of certain alleged breach of contract and common law duty of care by MHWE in its negotiation with the Water Supplies Department of Hong Kong ("WSD") on settlement of final accounts and recovery of service fees for certain construction projects for WSD in which the plaintiff acted as the subcontractor of MHWE. The claim has not yet been settled as at the Latest Practicable Date.

Save as disclosed above, so far as the Directors are aware, no member of the Enlarged Group is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Enlarged Group as at the Latest Practicable Date.

6. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, to the best knowledge of the Directors, none of the Directors and their respective associates were considered to have any interests in businesses which compete or were likely to compete, either directly or indirectly, with the business of the Group, other than those businesses which the Directors were appointed as directors to represent the interests of the Group.

7. SERVICE CONTRACTS

Mr. YUEN Chow Ming, the chairman of the Company and an executive Director, has entered into a service contract with the Company for an initial term of three years commencing on 1 March 2009 which will continue thereafter provided that either party may terminate the appointment by giving to the other party not less than six months' written notice of termination or by payment in lieu of such notice. Mr. YUEN Chow Ming is currently entitled to a monthly salary of HK$98,000 and eligible to participate in the share option scheme of the Company.

Mr. YUEN Wai Keung, the deputy chairman and chief executive officer of the Company and an executive Director, has entered into a service contract with the Company for an initial term of three years commencing on 1 March 2009 which will continue thereafter provided that either party may terminate the appointment by giving to the other party not less than six months' written notice of termination or by payment in lieu of such notice. Mr. YUEN Wai Keung is currently entitled to a monthly salary of HK$98,000, a reimbursement of rental expenses in a maximum of HK$40,000 per month and eligible to participate in the share option scheme of the Company.

Mr. SO Yiu Cheung, the deputy chairman of the Company and an executive Director, has entered into a service contract with the Company for an initial term of three years commencing on 1 March 2009 which will continue thereafter provided that either party may terminate the appointment by giving to the other party not less than six months' written notice of termination or by payment in lieu of such notice. Mr. SO Yiu Cheung is currently entitled to a monthly salary of HK$98,000 and eligible to participate in the share option scheme of the Company.

Mr. CHEUNG Chi Man, Dennis ("Mr. CHEUNG"), an executive Director, has entered into a service contract with the Company for an initial term of three years commencing on 15 October 2008 which will continue thereafter provided that either party may terminate the appointment by giving to the other party not less than three months' written notice of termination or by payment in lieu of such notice. Mr. CHEUNG is entitled to a monthly salary of HK$80,000, an annual bonus equivalent to one month's basic salary and eligible to participate in the share option scheme of the Company.

Mr. CHEUNG, formerly an independent non-executive Director, has been re-designated as an executive Director with effect from 15 October 2008. He has also been appointed as the chief financial officer of the Company, the qualified accountant of the Company and the company secretary of the Company. In line with the re-designation of Mr. CHEUNG as an executive Director, he has ceased to act as the chairman of the audit committee of the Company ("Audit Committee"), a member of the nomination committee of the Company ("Nomination Committee") and a member of the remuneration committee of the Company ("Remuneration Committee") with effect from 15 October 2008. Prior to the re-designation, Mr. CHEUNG was entitled to a monthly remuneration of HK$8,000 under three letters of appointment entered into between Mr. CHEUNG and the Company in February 2006, October 2006 and October 2007 respectively, pursuant to which the terms of office of Mr. CHEUNG was one year from the date of appointment until at least one month's written notice is served by Mr. CHEUNG to terminate the same or until a written notice is served by the Company at any time in case of material breach of his obligations.

Mr. HO Hin Hung, Henry, an executive Director, has entered into a service contract with the Company for a fixed term of three years commencing on 15 March 2010. Subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with its articles of association, the appointment of Mr. HO Hin Hung, Henry may be terminated by either party by giving to the other party not less than three months' written notice of termination or by payment in lieu of such notice. Mr. HO Hin Hung, Henry is entitled to a monthly salary of HK$150,000 and eligible to participate in the share option scheme of the Company.

Mr. WONG Lap Shek, Eddie was appointed as an independent non-executive Director, the chairman of the Audit Committee, a member of the Nomination Committee and a member of the Remuneration Committee with effect from 15 October 2008 in replacement of Mr. CHEUNG. Mr. WONG Lap Shek, Eddie has entered into two letters of appointment with the Company, each for a fixed term of one year commencing on 15 October 2008 and 1 October 2009 respectively. Subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with its articles of association, the appointment of Mr. WONG Lap Shek, Eddie may be terminated by either party by giving to the other party not less than one month's written notice of termination or by a written notice served by the Company to Mr. WONG Lap Shek, Eddie at any time in case of material breach of his obligations. Mr. WONG Lap Shek, Eddie is entitled to a monthly director's fee of HK$8,000 and eligible to participate in the share option scheme of the Company.

Mr. LEUNG Yee Tak, an independent non-executive Director, has entered into a letter of appointment with the Company for a fixed term of one year commencing on 1 November 2009. Subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with its articles of association, the appointment of Mr. LEUNG Yee Tak may be terminated by either party by giving to the other party not less than one month's written notice of termination or by a written notice served by the Company to Mr. LEUNG Yee Tak at any time in case of material breach of his obligations. Mr. LEUNG Yee Tak is entitled to a monthly director's fee of HK$10,000 and eligible to participate in the share option scheme of the Company.

Mr. LIAO Cheung Tin, Stephen, an independent non-executive Director, has entered into a letter of appointment with the Company for a fixed term of half year commencing on 1 February 2010. Subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with its articles of association, the appointment of Mr. LIAO Cheung Tin, Stephen may be terminated by either party by giving to the other party not less than one month's written notice of termination or by a written notice served by the Company to Mr. LIAO Cheung Tin, Stephen at any time in case of material breach of his obligations. Mr. LIAO Cheung Tin, Stephen is entitled to a monthly director's fee of HK$10,000 and eligible to participate in the share option scheme of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any other existing or proposed service contract with any member of the Enlarged Group (excluding contracts expiring or determinable by the Company or the relevant member of the Enlarged Group within one year without payment of compensation other than statutory compensation).

8. MATERIAL CONTRACTS

The following contracts, either being contracts not entered into in the ordinary course of business or considered by the Directors as being material in nature, were entered into by the Enlarged Group within two years preceding the Latest Practicable Date:

(i) the Acquisition Agreement;

(ii) a supplemental agreement to the Acquisition Agreement dated 29 December 2009 entered into by the parties to the Acquisition Agreement;

(iii) a supplemental agreement to the Acquisition Agreement dated 7 May 2010 entered into by the parties to the Acquisition Agreement;

(iv) the Placing Agreement;

(v) a memorandum of agreement dated 28 January 2010 and entered into by the parties to the Placing Agreement in relation to an extension of time limit for appointment of escrow agent as required under the Placing Agreement;

(vi) a supplemental agreement to the Placing Agreement dated 9 March 2010 and entered into by the parties to the Placing Agreement in relation to appointment of escrow agent as required under the Placing Agreement;

(vii) an escrow agreement dated 29 January 2010 and entered into between the Company, the Placing Agent and Law Debenture Trust (Asia) Limited in respect of an escrow arrangement required under the Placing Agreement;

(viii) a termination deed dated 9 March 2010 and entered into between the Company, the Placing Agent and Law Debenture Trust (Asia) Limited in respect of termination of the escrow agreement stated in item (vii) above;

(ix) an escrow agreement dated 9 March 2010 and entered into between the Company, the Placing Agent and Standard Chartered Bank (Hong Kong) Limited in respect of an escrow arrangement required under the Placing Agreement;

(x) a joint venture agreement dated 6 March 2008 and entered into between Ming Hing Waterworks Engineering Company Limited, an indirect wholly-owned subsidiary of the Company, and Star Field Holdings Limited, a subsidiary of China Water Affairs Group Limited (stock code: 855) ("China Water"), in relation to the formation of a joint venture in PRC, Zhong Xing Waterworks Construction Development Limited;

(xi) an equity transfer agreement dated 29 April 2008 and entered into between Mr. Lo (盧興會) and 清遠市新興自來水淨化有限公司 ("MH Qingyuan"), a wholly-owned subsidiary of the Company, in relation to the acquisition of 83.33% of the equity interest in 清新縣飛來峽發興水務有限公司 (the "Feilaixia JV"), a company established in the PRC with limited liabilities, at a price of RMB500,000;

(xii) an agreement dated 9 May 2008 and entered into between MH Qingyuan and 清新縣飛來峽旅遊開發有限公司 ("Feilaixia Travel") (being the other owner of the Feilaixia JV) pursuant to which MH Qingyuan had agreed to inject RMB13,000,000 (equivalent to approximately HK$14.69 million) as further registered capital to the Feilaixia JV and the registered capital of the Feilaixia JV would be increased from RMB600,000 (equivalent to approximately HK$678,000) to RMB13,600,000 (equivalent to approximately HK$15.4 million);

(xiii) a water supply agreement dated 9 May 2008 and entered into between Feilaixia Travel and the Feilaixia JV pursuant to which Feilaixia Travel granted the Feilaixia JV water supply right for 30 years in the Feilaixia county, Qingyuan City, Guangdong Province, the PRC at the agreed water fee of RMB1.4 per cubic metre;

(xiv) an agreement dated 18 September 2008 and entered into between the Company and China Water, pursuant to which (i) the Company shall sell the entire issued share capital and shareholder's loan of Ming Hing Waterworks Engineering (PRC) Limited to China Water at the consideration of HK$53,760,000 and (ii) China Water shall sell to the Company 128,000,000 shares of the Company at completion for cancellation at the consideration of HK$53,760,000, equivalent to HK$0.42 per share;

(xv) a supplemental agreement to the agreement stated in (xiv) above dated 13 October 2008 and entered into by the same parties as stated in item (xiv) above for adding one more condition precedent;

(xvi) a core drilling contract dated 15 June 2007 and entered into between Camex LLC and Landdrill International XXK in respect of diamond core drilling operations and services provided by Landdrill International XXK at one of the Other Mines located at Zavkhan with various service fees payable by Camex LLC depending on the nature and stages of services provided, such as mobilization, surveys, on-site support and water supply;

(xvii) a service contract dated 28 February 2007 and entered into between Camex LLC and Ausmelt Limited in respect of certain engineering and analytic services provided by Ausmelt Limited for the feasibility studies conducted by Camex LLC on certain of the Mines, at a service fee of US$495,000;

(xviii) a contract dated 18 July 2007 and entered into between TNE and Sibthermo Co., Ltd. in respect of scientific research and experimental design work provided by Sibthermo Co., Ltd. on the development of plants and gasifiers at the TNE Mines, at a contract sum of 5.1 million rubles, the lawful currency of Russia; and

(xix) a contract dated 25 December 2007 and entered into between TNE and Sibtermo LLC in respect of the supply, installation and adjustment of certain equipment, machinery and materials by Sibtermo LLC for plants construction at the TNE Mine, at a contract sum of approximately 5.2 million rubles, the lawful currency of Russia.

9. EXPERTS AND CONSENTS

(a) The following are the qualifications of the experts who have given their opinions and advice which are included in this circular:

Name	**Qualification**
Shenyin Wanguo	a licensed corporation to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Grant Thornton	Certified Public Accountants
BMI Appraisals Limited (“BMIAL”)	independent professional valuer
BMI Technical Consulting (“BMITC”)	independent technical adviser
Optima Capital Limited (“Optima Capital”)	a licensed corporation to carry on business in type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Guangdong SD & Partners (廣東晟典律師事務所) (“Guangdong SD”)	the PRC legal adviser of the Company
Anand & Batzaya Advocates (“ABA”)	the Mongolian legal adviser of the Company
Asset Appraisal Limited (“Asset Appraisal”)	independent professional valuer

(b) As at the Latest Practicable Date, neither Shenyin Wanguo, Grant Thornton, BMIAL, BMITC, Optima Capital, Guangdong SD, ABA nor Asset Appraisal had any shareholding, directly or indirectly, in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

(c) Neither Shenyin Wanguo, Grant Thornton, BMIAL, BMITC, Optima Capital, Guangdong SD, ABA nor Asset Appraisal has withdrawn its written consent to the issue of this circular with the inclusion of the references to its name and/or its opinion in the form and context in which they are included.

(d) As at the Latest Practicable Date, neither Shenyin Wanguo, Grant Thornton, BMIAL, BMITC, Optima Capital, Guangdong SD, ABA nor Asset Appraisal had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 March 2009, the date to which the latest published audited financial statements of the Enlarged Group were made up.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during 9:00 a.m. to 5:00 p.m. on any week day, except Saturdays, Sundays and public holidays at the principal place of business of the Company in Hong Kong at Units 1809-1812, Telford House, 16 Wang Hoi Road, Kowloon Bay, Hong Kong, from the date of this circular up to and including the date of the EGM:

(a) the memorandum of association and the Articles of Association of the Company;

(b) the annual reports of the Company containing audited consolidated financial statements of the Group for the two years ended 31 March 2009;

(c) the interim report of the Company for the six months ended 30 September 2009;

(d) the letter from Shenyin Wanguo containing its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from Shenyin Wanguo" in this circular;

(e) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" to this circular;

(f) the accountants' report on the Target Company, the texts of which are set out in Appendix II to this circular;

(g) the accountants' report on Camex Pte, the texts of which are set out in Appendix II to this circular;

(h) the accountants' report on Camex LLC, the texts of which are set out in Appendix II to this circular;

(i) the accountants' report issued by Grant Thornton in connection with the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(j) the technical report on the TNE Mine prepared by BMITC as set out in Appendix IV to this circular;

(k) the valuation report on TNE prepared by BMI as set out in Appendix V to this circular;

(l) the reports on forecast underlying the valuation of TNE, the texts of which are set out in Appendix VI to this circular;

(m) the valuation report on the property interests of the Enlarged Group prepared by Asset Appraisal Limited as set out in Appendix VII to this circular; and

(n) the written consents referred to in the paragraph headed "Experts and consents" in this appendix;

(o) the service contracts referred to in the paragraph headed "Service contracts" in this appendix;

(p) the material contracts referred to in the paragraph headed "Material contracts" in this appendix; and

(q) this circular.

11. MISCELLANEOUS

(i) The qualified account of the Company and the company secretary of the Company is Mr. CHEUNG Chi Man, Dennis, a member of the Hong Kong Institute of Certified Public Accountants and Australian Society of Certified Practicing Accountants.

(ii) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands; and the head office and principal place of business of the Company is situated at Units 1809-1812, Telford House, 16 Wang Hoi Road, Kowloon Bay, Hong Kong.

(iii) The Hong Kong branch share registrar of the Company is Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(iv) In the event of inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

明興水務控股有限公司
MING HING WATERWORKS HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)
(Stock Code: 402)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Ming Hing Waterworks Holdings Limited (the "**Company**") will be held at Unit 2402, 24/F., Admiralty Centre, Office Tower I, 18 Harcourt Road, Hong Kong on Friday, 28 May 2010 at 10:00 a.m. to consider and, if thought fit, passing, with or without modifications, the following resolutions (unless otherwise indicated, capitalized terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 12 May 2010 (the "**Circular**") relating to, among other things, the Acquisition, the Placing and the proposed increase in authorised share capital of the Company):–

AS ORDINARY RESOLUTIONS

To approve the Acquisition Agreement and the transactions contemplated thereunder:

1. "**THAT**

(1) the Acquisition Agreement (a copy of which has been produced to the meeting and marked "**B**", and initialled by the chairman of the meeting for the purpose of identification) and the terms thereof be and are hereby approved, confirmed and ratified;

(2) the Acquisition (as defined in the Circular) by the Company on the terms set out in the Acquisition Agreement be and is hereby approved;

(3) the issue of the Promissory Note to Sino Access (both as defined in the Circular) (or its nominee), the issue and allotment by the Company of the Consideration Shares to Best State (both as defined in the Circular) (or its nominee), the issue of the Convertible Note (as defined in the Circular) in favour of Best State (or its nominee), and the issue of the Compensation Note (as defined in the Circular) in favour of Best State (or its nominee), in each case on the terms set out in the Acquisition Agreement, be and are hereby approved;

(4) the issue and allotment by the Company of such shares of the Company from time to time upon exercise of the conversion rights under the Convertible Note and the Compensation Note be and is hereby approved;

(5) all other transactions contemplated under the Acquisition Agreement be and are hereby approved; and

(6) the directors of the Company be and are hereby authorised to do all such acts and things as they in their absolute discretion deems necessary, desirable or expedient to implement, give effect to and/or complete the Acquisition Agreement and the transactions contemplated thereunder, including without limitation the issue of the Promissory Note, the allotment and issue of the Consideration Shares, the issue of the Convertible Note, the issue of the Compensation Note, the issue and allotment of such shares of the Company from time to time upon exercise of the conversion rights under the Convertible Note and the Compensation Note, and, where required, any amendment of the terms of the Acquisition Agreement and/or the Convertible Note and/or the Compensation Note as required by, or for the purposes of obtaining the approval of relevant authorities or to comply with all applicable laws, rules and regulations."

To approve the Placing:

2. "**THAT**

(1) the Placing Agreement (a copy of which has been produced to the meeting and marked "**C**", and initialled by the chairman of the meeting for the purpose of identification) and the terms thereof be and are hereby approved, confirmed and ratified;

(2) the allotment and issue of the Placing Shares (as defined in the Circular) pursuant to and in accordance with the terms and conditions of the Placing Agreement be and is hereby approved and the board of directors of the Company be and is hereby authorised to allot and issue the Placing Shares; and

(3) the directors of the Company be and are hereby authorised to exercise all powers of the Company and take such actions or execute such documents to effect the allotment and issue of the Placing Shares and to do all such other acts and things as they in their absolute discretion deem necessary, desirable or expedient to implement, give effect to and/or complete the Placing Agreement and the transactions contemplated thereunder."

To approve the increase in authorised share capital of the Company:

3. "**THAT** the proposed increase in the authorised share capital of the Company from HK$100,000,000 divided into 2,000,000,000 shares of HK$0.05 each to HK$2,500,000,000 divided into 50,000,000,000 shares of HK$0.05 each by the creation of an additional 48,000,000,000 new shares of HK$0.05 each be and is hereby approved and the directors of the Company be and are hereby authorised to exercise all powers of the Company and take such actions or execute such documents to effect the increase in authorised share capital of the Company and to do all such other acts and things as they in their absolute discretion deem necessary, desirable or expedient to implement, give effect to and/or complete the transactions contemplated in relation to the increase in the authorised share capital of the Company, and the compliance by the Company with the relevant laws and regulations."

By Order of the Board
CHEUNG Chi Man, Dennis
Company Secretary

Hong Kong, 12 May 2010

Notes:

(1) A form of proxy for use at the EGM or any adjournment thereof is enclosed.

(2) Any member entitled to attend and vote at the EGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the EGM. A proxy need not be a member of the Company.

(3) In order to be valid, the form of proxy completed in accordance with the instructions set out therein, together with the power of attorney or other authority (if any) under which it is signed (or a certified copy of that power or authority) must be deposited at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

(4) In case of joint holders of any share, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders are present at the meeting in person or by proxy, then one of the said persons to present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.