



# 中國基礎資源控股有限公司

CHINA PRIMARY RESOURCES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8117)



Interim Report  
2007

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### ***HIGHLIGHTS***

Revenue from the continuing operations for the six months ended 30 June 2007 was approximately HK\$23,153,000, representing an increase of approximately 5% from the corresponding period.

Loss attributable to shareholders for the same period amounted to approximately HK\$5,583,000 while it was profit of approximately HK\$119,000 in the corresponding period.

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2007.

## UNAUDITED RESULTS

The board of Directors (the “Board”) of China Primary Resources Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007 together with the comparative figures as follows. The consolidated interim financial statements of the Group have not been audited but have been reviewed by the audit committee of the Company.

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	Three months ended		Six months ended	
		30 June		30 June	
		2007	2006	2007	2006
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Continuing operations:</b>					
Revenue	2	17,189	8,553	23,153	22,089
Other revenue	3	312	69	503	73
Cost of trading merchandise sold		(14,729)	(1,066)	(19,429)	(12,136)
Raw materials and consumables used		(1,715)	(6,090)	(3,011)	(6,203)
Staff costs, including directors' remuneration		(704)	(533)	(1,279)	(1,139)
Depreciation		(197)	(170)	(707)	(364)
Amortisation on land use rights		(165)	(148)	(316)	(295)
Other operating expenses		(2,095)	(996)	(4,423)	(1,807)
<b>Operating (loss)/profit</b>	4	<b>(2,104)</b>	<b>(381)</b>	<b>(5,509)</b>	218
Finance costs	5	(101)	(69)	(198)	(108)
<b>(Loss)/Profit before income tax</b>		<b>(2,205)</b>	<b>(450)</b>	<b>(5,707)</b>	110
Income tax expense	6	-	-	-	-
<b>(Loss)/Profit after tax from continuing operations</b>		<b>(2,205)</b>	<b>(450)</b>	<b>(5,707)</b>	110

**CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)**  
(continued)

	Notes	Three months ended		Six months ended	
		30 June		30 June	
		2007	2006	2007	2006
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Discontinued operations:</b>					
Profit for the period from discontinued operations	7	-	5	-	9
<b>(Loss)/Profit for the period</b>		<b>(2,205)</b>	<b>(445)</b>	<b>(5,707)</b>	<b>119</b>
Attributable to:					
Equity holders of the Company		(2,150)	(445)	(5,583)	119
Minority interests		(55)	-	(124)	-
<b>(Loss)/Profit for the period</b>		<b>(2,205)</b>	<b>(445)</b>	<b>(5,707)</b>	<b>119</b>
<b>Dividends</b>	8	-	-	-	-
<b>(Loss)/Earnings per share for (loss)/profit from continuing and discontinued operations attributable to the equity holders of the Company during the period (2006: restated)</b>					
Basic	9	<b>(HK0.03 cents)</b>	(HK0.007 cents)	<b>(HK0.08 cents)</b>	HK0.002 cents
Diluted		N/A	(HK0.007 cents)	N/A	HK0.002 cents
<b>(Loss)/Earnings per share for (loss)/profit from continuing operations attributable to the equity holders of the Company during the period (2006: restated)</b>					
Basic	9	<b>(HK0.03 cents)</b>	(HK0.007 cents)	<b>(HK0.08 cents)</b>	HK0.002 cents
Diluted		N/A	(HK0.007 cents)	N/A	HK0.002 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

	<b>30 June</b>	31 December
	<b>2007</b>	2006
<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>ASSETS AND LIABILITIES</b>		
<b>Non-current assets</b>		
Property, plant and equipment	31,541	30,314
Land use rights	30,285	29,102
Deposits	19,588	18,627
	<u>81,414</u>	<u>78,043</u>
<b>Current assets</b>		
Inventories	1,580	2,539
Trade receivables	11 239	1,394
Prepayments, deposits and other receivables	349	5,443
Tax refundable	41	39
Cash and cash equivalents	94,801	88,204
	<u>97,010</u>	<u>97,619</u>
<b>Current liabilities</b>		
Trade payables	12 (538)	(467)
Accruals and other payables	(421)	(2,095)
	<u>(959)</u>	<u>(2,562)</u>
<b>Net current assets</b>	<u>96,051</u>	<u>95,057</u>
<b>Total assets less current liabilities</b>	<u>177,465</u>	<u>173,100</u>
<b>Non-current liabilities</b>		
Convertible bonds	13 (5,604)	(5,469)
Deferred tax liabilities	(19)	(19)
	<u>(5,623)</u>	<u>(5,488)</u>
<b>Net assets</b>	<u>171,842</u>	<u>167,612</u>
<b>EQUITY</b>		
<b>Equity attributable to equity holders of the Company</b>		
Share capital	14 8,533	8,519
Reserves	158,782	154,442
	<u>167,315</u>	<u>162,961</u>
<b>Minority interests</b>	<u>4,527</u>	<u>4,651</u>
<b>Total equity</b>	<u>171,842</u>	<u>167,612</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Equity attributable to equity holders of the Company											
	Share capital	Share premium account	Convertible bonds reserve	Employee compensation reserve	Statutory surplus reserve	Statutory public welfare reserve	Accumulated losses	Warrants reserve	Exchange translation reserve	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
Balance at 1 January 2006	5,914	69,497	-	-	2,851	1,425	(24,716)	473	888	-	56,332
Currency translation (Net expense recognised directly in equity)	-	-	-	-	-	-	-	-	(248)	-	(248)
Profit for the six months ended 30 June 2006	-	-	-	-	-	-	119	-	-	-	119
Total recognised income and expense for the six months ended 30 June 2006	-	-	-	-	-	-	119	-	(248)	-	(129)
Issuance of new shares	2,602	97,456	-	-	-	-	-	-	-	-	100,058
Share issue expenses	-	(124)	-	-	-	-	-	-	-	-	(124)
Issuance of convertible bonds	-	-	1,063	-	-	-	-	-	-	-	1,063
Balance at 30 June 2006	<u>8,516</u>	<u>166,829</u>	<u>1,063</u>	<u>-</u>	<u>2,851</u>	<u>1,425</u>	<u>(24,597)</u>	<u>473</u>	<u>640</u>	<u>-</u>	<u>157,200</u>
Balance at 1 January 2007	8,519	167,601	1,063	1,531	5,110	-	(31,007)	8,224	1,920	4,651	167,612
Currency translation (Net income recognised directly in equity)	-	-	-	-	8	-	-	-	7,014	-	7,022
Loss for the six months ended 30 June 2007	-	-	-	-	-	-	(5,583)	-	-	(124)	(5,707)
Total recognised income and expense for the six months ended 30 June 2007	-	-	-	-	8	-	(5,583)	-	7,014	(124)	1,315
Exercise of warrants	14	3,033	-	-	-	-	-	(132)	-	-	2,915
Balance at 30 June 2007	<u>8,533</u>	<u>170,634</u>	<u>1,063</u>	<u>1,531</u>	<u>5,118</u>	<u>-</u>	<u>(36,590)</u>	<u>8,092</u>	<u>8,934</u>	<u>4,527</u>	<u>171,842</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
(UNAUDITED)**

	<b>Six months ended 30 June 2007 HK\$'000</b>	<b>Six months ended 30 June 2006 HK\$'000</b>
<b>Net cash inflow/(outflow) from operating activities</b>	<b>1,610</b>	<b>(21,711)</b>
<b>Net cash outflow from investing activities</b>	<b>(933)</b>	<b>(1,379)</b>
<b>Net cash inflow/(outflow) before financing activities</b>	<b>677</b>	<b>(23,090)</b>
<b>Net cash inflow from financing activities</b>	<b>2,915</b>	<b>100,336</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,592</b>	<b>77,246</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>88,204</b>	<b>5,890</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>3,005</b>	<b>(249)</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>94,801</b>	<b>82,887</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash at bank and in hand	<b>94,801</b>	<b>82,887</b>
	<b>94,801</b>	<b>82,887</b>



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of presentation and principal accounting policies

The Company was incorporated in the Cayman Islands, as an exempted company with limited liability under the Companies Law (2001 Revision) of the Cayman Islands on 5 September 2001.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirement of Chapter 18 of the GEM Listing Rules and Hong Kong Accounting Standards (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The financial statements are prepared under the historical cost convention.

The consolidated financial statements incorporated the financial statements of the Company and its principal subsidiaries for the period ended 30 June 2007. All material intercompany transactions and balances within the Group are eliminated on consolidation.

The accounting policies adopted in the condensed consolidated results are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2006.

#### Adoption of new or amended Hong Kong Financial Reporting Standards

From 1 January 2007, the Group has adopted all the new and amended Hong Kong Financial Reporting Standards (“HKFRSs”) which are first effective on 1 January 2007 and relevant to the Group. The adoption of these new and amended HKFRSs did not result in significant changes in both the Group’s and Company’s accounting policies.

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The Directors anticipate that the adoption of such HKFRSs will not result in material financial impact on the Group’s financial statements.

HKAS 23 (Revised)	“Borrowing Costs” <sup>1</sup>
HKFRS 8	“Operating Segments” <sup>1</sup>
HK(IFRIC) Interpretation 11	“Group and Treasury Share Transactions” <sup>2</sup>
HK(IFRIC) Interpretation 12	“Service Concession Arrangements” <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2008

## 2. Revenue

Revenue, which is also the Group's turnover, represents the total invoiced value of goods supplied and income from provision of services. Revenue recognised during the period is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2007 <i>HK\$'000</i> (Unaudited)	2006 <i>HK\$'000</i> (Unaudited)	2007 <i>HK\$'000</i> (Unaudited)	2006 <i>HK\$'000</i> (Unaudited)
<b>Continuing operations:</b>				
Sales of composite materials	15,702	1,097	20,539	14,633
Manufacturing and sales of PE/FRP Pipes	1,487	7,456	2,614	7,456
Sales of goods	17,189	8,553	23,153	22,089
<b>Discontinued operations:</b>				
Game-On-Demand service income	-	-	-	-
MMOG service income	-	28	-	47
Provision of services	-	28	-	47
<b>Total Revenue</b>	<b>17,189</b>	<b>8,581</b>	<b>23,153</b>	<b>22,136</b>

### 3. Other revenue – continuing operations

	Three months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Bank interest income	339	64	481	68
Sundry income	(27)	5	22	5
	<u>312</u>	<u>69</u>	<u>503</u>	<u>73</u>

### 4. Operating (loss)/profit – continuing operations

Operating (loss)/profit is arrived at after charging/(crediting):

	Three months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest income	(339)	(64)	(481)	(68)
Cost of inventories recognised as expenses	16,444	7,156	22,440	18,339
Operating lease charges on land and buildings	172	139	304	274
Depreciation (Note 1)	450	321	1,260	627
Amortisation on land use rights	165	148	316	295
Staff costs, including directors' emoluments	704	533	1,279	1,139
Contribution to retirement benefit scheme (Note 2)	10	19	22	35
Net exchange loss	<u>1</u>	<u>5</u>	<u>1</u>	<u>5</u>

Notes:

1. Depreciation expense of approximately HK\$253,000 and HK\$553,000 for the three months and six months ended 30 June 2007 respectively (three months and six months ended 30 June 2006: HK\$151,000 and HK\$263,000) has been expensed in cost of goods sold.
2. Contribution to retirement benefit scheme for the period is included in “staff costs” above.

#### 5. Finance costs – continuing operations

	Three months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest charges on				
– loans from a shareholder	–	–	–	39
– convertible bonds	101	69	198	69
	<u>101</u>	<u>69</u>	<u>198</u>	<u>108</u>

#### 6. Income tax expense – continuing operations

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the three months and six months ended 30 June 2007 (three months and six months ended 30 June 2006: Nil).

No profits tax has been provided as the subsidiaries in the People’s Republic of China (the “PRC”) were either entitled to an exemption from the PRC state and local corporate income tax or did not generate any assessable profits in the PRC during the three months and six months ended 30 June 2007 (three months and six months ended 30 June 2006: Nil).

The Group has tax losses arising in Hong Kong of approximately HK\$48,994,000 (as at 30 June 2006: HK\$39,805,000) and overseas of approximately HK\$2,323,000 (as at 30 June 2006: HK\$1,239,000) that are available for offsetting against future taxable profits of the companies in which the losses arose indefinitely and for 5 years, respectively. Deferred tax assets have not been recognised in respect of these losses as they have been arisen in subsidiaries that have loss-making for some time.

## 7. Discontinued operations

As stated in the annual report 2006 of the Company, the Group's management and shareholders agreed to abandon and discontinue the business line of Game-On-Demand services and MMOG services during the year ended 31 December 2006.

An analysis of the result of discontinued operations is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Revenue	-	28	-	47
Expenses	-	(23)	-	(38)
Profit before income tax of discontinued operations	-	5	-	9
Income tax expense	-	-	-	-
Profit for the period from discontinued operations	-	5	-	9
Operating cash flows	-	5	-	9
Investing cash flows	-	-	-	-
Financing cash flows	-	-	-	-
Total cash flows	-	5	-	9

## 8. Dividends

The Directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

## 9. (Loss)/Earnings per share

The calculations of the basic and diluted (loss)/earnings per share is based on the following data:

Three months ended 30 June		Six months ended 30 June	
2007	2006	2007	2006
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)

### (Loss)/Earnings

For continuing and discontinued operations based on the (loss)/profit for the period attributable to the equity holders of the Company

<b>(2,150)</b>	(445)	<b>(5,583)</b>	119
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For continuing operations based on the (loss)/profit for the period from continuing operations less results attributable to minority interests

<b>(2,150)</b>	(450)	<b>(5,583)</b>	110
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	<b>Three months ended 30 June</b>		<b>Six months ended 30 June</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
	<b>'000</b>	'000	<b>'000</b>	'000
	(as adjusted)		(as adjusted)	
<b>Number of shares</b>				
Weighted average number of ordinary shares for the purposes of calculating basic (loss)/earnings per share	<b><u>6,818,168</u></b>	6,081,312	<b><u>6,816,726</u></b>	5,639,836
Effect of dilutive potential ordinary shares:				
Warrants		-		397,114
Share options		-		N/A
Convertible bonds		-		-
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share		<b><u>6,081,312</u></b>		<b><u>6,036,950</u></b>

Diluted loss per share for the three months and six months ended 30 June 2007 has not been disclosed as the warrants, share options and convertible bonds outstanding during the period had an anti-dilutive effect on the basic loss per share for the period.

The weighted average number of shares for the purposes of calculating basic and diluted (loss)/earnings per share for the period 2006 has been adjusted to reflect the share subdivision in 2006.

## 10. Segment information

### Business segment

	Continuing operations						Discontinued operations							
	Sales of Composite Materials		Manufacturing and sales of PE/FRP pipes		Total continuing operations		Game-On-Demand services		MMOG services		Total discontinued operations		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000		
Revenue from														
external customers	20,539	14,633	2,614	7,456	23,153	22,089	-	-	-	47	-	47	23,153	22,136
Cost of services provided	-	-	-	-	-	-	-	-	-	(36)	-	(36)	-	(36)
Cost of goods sold	(19,429)	(12,136)	(3,011)	(6,203)	(22,440)	(18,339)	-	-	-	-	-	-	(22,440)	(18,339)
Other operating expenses	(1,575)	(965)	(200)	(491)	(1,775)	(1,456)	-	(1)	-	(1)	-	(2)	(1,775)	(1,458)
Segment results	<u>(465)</u>	<u>1,532</u>	<u>(597)</u>	<u>762</u>	<u>(1,062)</u>	<u>2,294</u>	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>10</u>	<u>-</u>	<u>9</u>	<u>(1,062)</u>	<u>2,303</u>
Other operating income													503	73
Finance costs													(198)	(108)
Unallocated expenses													(4,950)	(2,149)
(Loss)/Profit before income tax													(5,707)	119
Income tax expense													-	-
(Loss)/Profit for the period													<u>(5,707)</u>	<u>119</u>

## 11. Trade receivables

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.



The aging of the Group's trade receivables is analysed as follows:

	<b>30 June 2007</b>	31 December 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Within 30 days	<b>239</b>	639
31 – 60 days	–	755
	<u><b>239</b></u>	<u>1,394</u>

## 12. Trade payables

The aging of the Group's trade payables is analysed as follows:

	<b>30 June 2007</b>	31 December 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Within 30 days	<b>538</b>	–
31 - 60 days	–	453
61 - 90 days	–	14
	<u><b>538</b></u>	<u>467</u>

## 13. Convertible bonds

The convertible bonds were issued to Future Advance Holdings Limited on 27 April 2006 with maturity date on 26 April 2009. The convertible bonds are convertible into ordinary shares of the Company at an initial conversion price of HK\$0.4 per conversion share (subject to adjustments in accordance with the terms of the convertible bonds) at any time during the period commencing from six months on date following the date of issue of convertible bonds up to maturity date. After the share subdivision effective on 1 August 2006, the conversion price was adjusted to HK\$0.02 per conversion share. The convertible bonds can be converted into 313,503,280 shares at a conversion price of HK\$0.02.

The Company may at any time before the maturity date redeem the convertible bonds at par. Interest of 1 per cent will be paid annually until the settlement date.

The fair value of the liability component, included in the convertible bonds, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves, net of deferred taxes.

The convertible bonds recognised in the balance sheet are calculated as follows:

	<b>30 June 2007 HK\$'000 (Unaudited)</b>	31 December 2006 HK\$'000 (Audited)
Nominal value of convertible bond	<b>6,270</b>	6,270
Equity component	<b>(1,063)</b>	(1,063)
Liability component on initial recognition	<b>5,207</b>	5,207
Interest expense (net of interest paid)	<b>397</b>	262
Liability component at end of period/year	<b><u>5,604</u></b>	<u>5,469</u>

Interest expense on the bonds is calculated using the effective interest method by applying the effective interest rate of 7.426% to the liability component.

Interest expense recognised as expense and included in finance costs amounted to approximately HK\$198,000 for the six months ended 30 June 2007 (six months ended 30 June 2006: HK\$69,000).

The carrying amounts of liability component of convertible bonds approximate to its fair value.

#### 14. Share capital

	Number of shares	Nominal value
	'000	HK\$'000
<i>Authorised:</i>		
At beginning and end of period		
Ordinary shares of HK\$0.00125 each	<u>100,000,000</u>	<u>125,000</u>
<i>Issued and fully paid:</i>		
At beginning of period		
Ordinary shares of HK\$0.00125 each	6,815,267	8,519
Exercise of warrants ( <i>Note</i> )	<u>11,000</u>	<u>14</u>
At end of period		
Ordinary share of HK\$0.00125 each	<u>6,826,267</u>	<u>8,533</u>

*Note:*

On 1 August 2006, the conditional warrant placing agreement was entered into between the Company and a subscriber (the “Subscriber”) in relation to a private placing of 333,750,000 non-listed warrants (the “Warrants”) at an issue price of HK\$0.012 per Warrant. The Subscriber is an independent and is not connected person of the Company.

The Warrants entitle the Subscriber to subscribe for the new shares at an initial exercise price of HK\$0.265 per new share for a period of three (3) years commencing from the date of issue of the Warrants. Each Warrant carries the right to subscribe for one (1) new share.

On 7 June 2007, the issued share capital of the Company was increased from approximately HK\$8,519,000 to HK\$8,533,000 by part of Warrants issue were exercised for 11,000,000 shares of HK\$0.00125 each with exercise price of HK\$0.265 per Warrant.

## 15. Commitments

### *Commitment under operating leases*

The Group leases its office properties under an operating lease arrangement for a term of three years.

As at 30 June 2007, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings fall due as follows:

	<b>30 June 2007</b>	31 December 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Within one year	720	187
In the second to fifth years	<u>1,289</u>	–
	<u><b>2,009</b></u>	<u>187</u>

Save as aforesaid, the Group did not have any other significant commitments as at 30 June 2007.

## 16. Capital Commitment

### **Group**

	<b>30 June 2007</b>	31 December 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Property, plant and equipment		
– Contracted but not provided for	–	148
Proposed investment in a venture ( <i>Note a</i> )		
– Contracted but not provided for	<b>971,000</b>	971,000
Proposed investment in a venture ( <i>Note b</i> )		
– Authorised but not contracted for	<u>59,501</u>	59,501
	<u><b>1,030,501</b></u>	<u>1,030,649</u>

*Notes:*

- a. On 14 November 2006, 宜昌首控實業有限公司 (Yichang Shoukong Industries Co. Limited)<sup>#</sup> (“Yichang Shoukong”), a wholly-owned subsidiary of the Company, entered into an acquisition agreement with Great Ocean Real Estate Limited (“GORE”), pursuant to which Yichang Shoukong has conditionally agreed to acquire from 宜昌泰鴻礦山科技有限公司 (Yichang Tai Hong Mining Technology Company Limited)<sup>#</sup>, a wholly-owned subsidiary of GORE, 22.28% interest in the registered capital of 新首鋼資源控股有限公司 (Xin Shougang Zi Yuan Holdings Limited)<sup>#</sup> for an aggregate consideration of approximately HK\$971 million.

On 2 February 2007, Yichang Shoukong entered into second supplemental deed with GORE to amend certain terms of the acquisition agreement, in particular the payment terms of the consideration. Pursuant to the second supplemental deed, the consideration would be satisfied by (i) cash of HK\$18 million; and (ii) approximately 2,802 million preferred shares, which are convertible into preferred conversion shares at initial conversion rate of 1:1, subject to adjustments. Further details of the post balance sheet event are disclosed in the Company’s announcement dated 2 February 2007.

As at 30 June 2007, an amount of approximately RMB19 million has been paid to 湖北惠臨律師事務所 as a deposit for the acquisition.

- b. Sure Whole Investments Limited, a direct wholly-owned subsidiary of the Company, entered into heads of agreement with ASIA Resources Investment and Advisory Limited and Kondor Holdings Pty. Ltd. in relation to a possible investment in a joint venture company. Further details of the proposed investment are disclosed in the Company’s announcements dated 5 September 2006 and 22 December 2006.

Save as aforesaid, the Group did not have any other significant commitments as at 30 June 2007.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business review and future outlook**

During the period under review, the Group continued to engage in the general trading of fibre glass reinforced plastic pipes (“FRP Pipes”), raw materials and composite materials and production of FRP Pipes and polyethylene pipes (“PE Pipes”) in the PRC.

### **Production of Pipes:**

The business of PE Pipes is developing steadily. As it was stated in the Company’s first quarterly report dated 10 May 2007, two newly installed production lines for PE Pipes was running smoothly, and therefore, the management of the Group can focus on the planning of the project of the acquisition of equity interest in 新首鋼資源控股有限公司 (Xin Shougang Zi Yuan Holdings Limited)<sup>#</sup> (“Xin Shougang”).

On the other hand, the business of FRP Pipes still had no improvements during the period under review, even the management in Yichang was trying to explore more sales channels with existing marketing and sales teams, but the expected results were unable to meet. As it was stated in the Company’s third quarterly report dated 13 November 2006, the fierce competition from the other competitors in China and overseas, and the left of Mr. Lang Fulai, our ex-director and key-man to the establishment of the FRP Pipes project who resigned on 6 March 2006, caused the unexpected negative effects on the FRP Pipes business. Besides, the difficulties in finding the proper ways of resolving it was also out of the expectation of the management. However, the management in Yichang had still sought for the ways of improving it.

### **Progress of the mining businesses:**

- A. As stated in the Company’s first quarterly report dated 10 May 2007, the Company are still in the stage of finalising the terms and conditions of the project for the possible investment in a mining operation in Australia. For background information of this possible investment, please refer to the announcement dated 5 September 2006.

- B. In respect of the acquisition of equity interest in Xin Shougang, as it was stated in the Company's announcement dated 29 June 2007, for the purpose of preparing future business plan, a new independent technical adviser was appointed by the Company, and because of this, this new independent technical adviser will take another four weeks to complete their work. Accordingly, the prepared accountants' report of the target company also needed to be updated in accordance with the GEM Listing Rules and the estimated time for completion of the report will be approximately two months. As more time than expected will be needed to completion of the circular, such as the valuer and the reporting accountants require additional time to prepare their respective reports and financial information for inclusion in the circular, the Company had then applied to the Stock Exchange for a further extension of time to despatch the circular to the shareholders to 30 September 2007.

As at 30 June 2007, the Group continued in a position to develop the above-mentioned new production line and mining business while keeping abreast of its core business.

### **Financial review**

Total revenue and revenue from the continuing operations was approximately HK\$23,153,000 for the period under review, which represented an increase of approximately 5% while compared with that of the corresponding period. The unaudited loss before income tax from continuing operations for the period under review was approximately HK\$5,707,000 but it was a profit of approximately HK\$110,000 in the corresponding period. The loss attributable to shareholders was approximately of HK\$5,583,000. The Board will still adopt the stringent cost control and maintain thin and effective overhead structure and prudently utilize the corporate resources to create wealth for the shareholders.

### **Liquidity and financial resources**

With the funds raised previously and the internal resources of the Company, as at 30 June 2007, the Directors anticipate that the Group have adequate financial resources to meet its ongoing operations and development.

### **Employee information**

As at 30 June 2007, the Group has 4 full-time employees working in Hong Kong and 54 full-time employees working in the PRC respectively. The total of employee remuneration, including remuneration of the Directors, for the six months under review amounted to approximately HK\$1,279,000. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

### **Capital structure**

The shares of the Company were listed on the GEM of the Stock Exchange on 13 December 2001. Save as disclosed above, there has been no change in the capital structure of the Company since the Company's listing on that date.

### **Significant investments**

Save as disclosed, for the period under review, the Group had no significant investments.

### **Material acquisition and disposals/future plans for material investments**

The Company report that (i) in relation to the possible investment in a joint venture company and an exploration permit for coal in Australia, the formal agreement has not yet entered into up to the approval date of this report, and (ii) on 14 November 2006, 宜昌首控實業有限公司 (Yichang Shoukong Industries Co., Limited)<sup>#</sup> (“Yichang Shoukong”), a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement (“Acquisition”) with Great Ocean Real Estate Limited (“GORE”), pursuant to which Yichang Shoukong has conditionally agreed to acquire from 宜昌泰鴻礦山科技有限公司 (Yichang Tai Hong Mining Technology Company Limited)<sup>#</sup>, a wholly-owned subsidiary of GORE, 22.28% interest in the registered capital of Xin Shougang for an aggregate consideration of approximately HK\$971 million, however, on 2 February 2007, Yichang Shoukong entered into the second supplemental deed (the “Second Supplemental Deed”) with GORE to amend certain terms of the Acquisition Agreement, in particular the payment terms of the consideration. Pursuant to the Second Supplemental Deed, the consideration of approximately HK\$971 million would now be satisfied by (i) cash of HK\$18 million; and (ii) approximately 2,802 million preferred shares, which are convertible into ordinary shares of HK\$0.00125 each of the Company at the initial conversion rate of 1:1, subject to adjustments. We are preparing the circular for the shareholders' meeting to approve the Acquisition.



Save as disclosed above, there were no material acquisition or disposal of subsidiaries and affiliated companies during the six months ended 30 June 2007. The Company has no other future plans for material investments.

### **Segmental information**

Details have been set out in note 10 under “Notes to the condensed consolidated financial statements” and further elaborated under “Business review and future outlook” of this section.

### **Charge on group assets and contingent liabilities**

During the period under review, the Group did not have any significant contingent liabilities and no assets of the Group were pledged (six months ended 30 June 2006: Nil).

### **Gearing ratio**

As at 30 June 2007, the Group had cash and cash equivalents of approximately HK\$94,801,000 in its current assets while its current liabilities stood at approximately HK\$959,000, and the Group had long-term loan of approximately HK\$5,604,000 and its shareholders’ funds amounted to approximately HK\$167,315,000. In this regard, the Group had a net cash position and its gearing ratio should be approximately 3.3% (long-term loan to shareholders’ funds).

### **Exposure to fluctuations in exchange rates**

Sales and payment of the Group are denominated in Hong Kong dollars and Renminbi (“RMB”). No hedging or other alternatives have been implemented. As the exchange of Hong Kong dollars against RMB were relatively stable during the period under review, the Group’s exposure to currency exchange risk was minimal.

***DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION***

As at 30 June 2007, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

The approximate percentage of interest set out below is based on 6,826,267,200 ordinary shares in issue as at 30 June 2007, not on the total number of issued shares upon full conversion of the (i) convertible bond issued in favour of Future Advance Holdings Limited ("Future Advance") (details of which have been set out in the circular dated 21 March 2006), (ii) warrants (there are in total 658,604,400 warrants outstanding and 1,108,038,000 ordinary shares will be issued if all these warrants are exercised), (iii) 3,800,000 share options, (iv) pursuant to the conditional subscription agreement dated 12 June 2007, the convertible bonds (the "Convertible Bonds") to be issued to Lehman Brothers Commercial Corporation Asia Limited ("Lehman Brothers") and (v) the preferred shares to be issued to GORE (the "Preferred Shares"). Details of the Convertible Bonds and Preferred Shares are set out in the announcements dated 13 June 2007 and 2 February 2007 respectively.

- (i) *Long position in the ordinary shares of HK\$0.00125 each in the Company as at 30 June 2007:*

Name of director	Type of interests	Number of ordinary shares held	
		Number of ordinary shares	Approximate percentage of interests
Mr. Yu Hongzhi	Corporate ( <i>Note</i> )	2,576,194,460	37.7%

*Note:*

These shares are held by Future Advance. Future Advance is beneficially owned as to 37.5% by China Zong Heng Holdings Limited (which in turn is 100% beneficially owned by Mr. Yu Hongzhi) and as to 12.5% by Ms. Ma Zheng who is the sole director of Future Advance.

(ii) *Long position in the underlying shares or debentures of the Company as at 30 June 2007:*

Name of directors	Type of interests	Description of securities	Number of underlying shares	Approximate percentage of interests
Mr. Yu Hongzhi	Corporate	Convertible bond ( <i>Note 1</i> )	313,503,280	4.6%
	Beneficial	Share option ( <i>Note 2</i> )	76,000,000	1.1%
Ms. Ma Zheng	Beneficial	Share option ( <i>Note 2</i> )	54,000,000	0.8%
Mr. Chiu Winerthan	Beneficial	Share option ( <i>Note 2</i> )	20,000,000	0.3%

*Notes:*

- On 27 April 2006, by an instrument dated the same date, the Company created and issued in favour of Future Advance a convertible bond in the principal amount of HK\$6,270,065.60 pursuant to a subscription agreement dated 24 February 2006 entered into between the Company and Future Advance. Details of which have been set out in the announcement dated 28 February 2006. These shares represent the maximum number of new shares, which may be converted from the said convertible bond held by Future Advance as at 30 June 2007. Mr. Yu Hongzhi is therefore deemed to be interested in these underlying shares under the SFO as well.

2. On 3 April 2006, a total of 7,500,000 share options were conditionally granted as to 3,800,000 share options to Mr. Yu Hongzhi, as to 2,700,000 share options to Ms. Ma Zheng and as to 1,000,000 share options to Mr. Chiu Winerthan pursuant to a share option scheme adopted on 28 November 2001 by a written resolution of the then shareholders of the Company which confers discretionary power to the Directors to grant options to any Eligible Persons (including the full-time employees and any director of the Company) as defined in the share option scheme. Details of the share options granted are set out under the heading “Share Option” below. As a result of the share subdivision becoming effective on 1 August 2006, each option granted has been adjusted to the effect of conferring the right to subscribe for 20 subdivided shares (i.e. 20 ordinary shares of nominal value of HK\$0.00125 each). All of the options then granted became unconditional when the listing approval dated 26 September 2006 in respect of the shares which may fall to be allotted and issued upon the exercise of the share options granted to Mr. Yu Hongzhi was obtained from the Listing Committee of the Stock Exchange.

Save as disclosed above, as at 30 June 2007, none of the directors and chief executive of the Company had any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations, within the meaning of Part XV of the SFO required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

### **Share Option**

On 17 March 2004, the Company forfeited all the outstanding share options granted from a Pre-IPO share option scheme (the “Pre-Scheme”) adopted by the Company on 28 November 2001, and that all outstanding share options granted from the Pre-Scheme were cancelled and extinguished. For further details of these, please refer to the announcement dated 17 March 2004. As at 30 June 2007, there were no share options outstanding under the Pre-Scheme.

On the same date as the adoption of the aforesaid Pre-Scheme, a further share option scheme (the “Post-Scheme”) was approved by the Company. The Post-Scheme is valid and effective for a period of ten years commencing on the date on which it was adopted. The purpose of the Post-Scheme is to provide incentives and rewards to eligible participants who would contribute to the success of the Group’s operations. Under the terms of the Post-Scheme, the Board may, at its discretion, grant options to any full-time employee and any director of the Company or its subsidiaries, including any executive, non-executive or independent non-executive directors. The total number of shares which may fall to be issued upon exercise of all of the outstanding options granted and yet to be exercised under the Post-Scheme and other schemes (including the Pre-Scheme) of the Company must not exceed 30% of the shares in issue from time to time. The Post-Scheme will remain in force for a period of ten years commencing the date on which the scheme becomes unconditional.

The Post-Scheme was amended and adopted by the shareholders at the annual general meeting of the Company held on 16 April 2003. The amendment involved the extension of the definition of eligible person in the Post-Scheme to include any suppliers, consultants, agents, advisors and distributors who, in the sole discretion of the Board, have contributed or may contribute to the Group.

As at 30 June 2007, the number of shares in respect of which options had been granted under the Post-Scheme was 176 million (six months ended 30 June 2006: Nil), representing 2.58 per cent (six months ended 30 June 2006: Nil) of the shares of the Company in issue at the date of this report. The total number of shares in respect of which options may be granted under the Post-Scheme is not permitted to exceed 10 per cent of the shares of the Company in issue as at the date of approval of the Post-Scheme, without prior approval from the Company’s shareholders. However, the total number of shares available for issue under the Post-Scheme is approximately 681,246,720 shares, representing approximately 10% of the issued share capital as at the date of this report. The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1 per cent of the shares of the Company in issue at any point in time, without prior approval from the Company’s shareholders. Options granted to independent non-executive directors in excess of 0.1 per cent of the Company’s share capital or with a value in excess of HK\$5 million must be approved in advance by the Company’s shareholders.

The subscription price will be determined by the Board and will be the highest of (i) the quoted closing price of the Company's shares on the Commencement Date (as defined in the Post-Scheme), which must be a trading day, and (ii) the average of the quoted closing price of the Company's shares for the five trading days immediately preceding the Commencement Date (as defined in the Post-Scheme). Any options granted under the Post-Scheme shall end in any event not later than ten years from the Commencement Date (as defined in the Post-Scheme). A nominal value of HK\$1.00 is payable on acceptance of each grant of options.

Details of the share options granted by the Company pursuant to the Post-Scheme and the options outstanding as at 30 June 2007 were as follows:

Grantees	Date granted	Balance	Granted during the period	Exercised during the period	Lapsed during the period	Balance	Period during which the options are exercisable	Exercise price per share
		as at 1 January 2007				as at 30 June 2007		
Mr. Yu Hongzhi (Director)	3 April 2006	3,800	-	-	-	3,800	3 April 2006 to 27 November 2011	HK\$0.053
Ms. Ma Zheng (Director)	3 April 2006	2,700	-	-	-	2,700	3 April 2006 to 27 November 2011	HK\$0.053
Mr. Chiu Winerthan (Director)	3 April 2006	1,000	-	-	-	1,000	3 April 2006 to 27 November 2011	HK\$0.053
Employees	3 April 2006	1,300	-	-	-	1,300	3 April 2006 to 27 November 2011	HK\$0.053
		<u>8,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,800</u>		

*Notes:*

- As a result of the share subdivision becoming effective on 1 August 2006, each options granted has been conferred the right to the relevant option holders to subscribe for 20 subdivided shares (i.e. 20 ordinary shares of nominal value of HK\$0.00125 each).

2. All of the options then granted became unconditional when the listing approval dated 26 September 2006 in respect of the shares which may fall to be allotted and issued upon the exercise of the share options granted to Mr. Yu Hongzhi was obtained from the Listing Committee of the Stock Exchange.

Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

### ***SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY***

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30 June 2007, the Company had been notified that the following substantial shareholders having the following interests and short positions, being 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, in the Company. These interests are shown in addition to those disclosed above in respect of the directors and chief executives:

- (a) The approximate percentage of interest set out below is based on 6,826,267,200 ordinary shares in issue as at 30 June 2007, not on the total number of issued shares upon full conversion of the (i) convertible bond issued in favour of Future Advance Holdings Limited ("Future Advance") (details of which have been set out in the circular dated 21 March 2006), (ii) warrants (there are in total 658,604,400 warrants outstanding and 1,108,038,000 ordinary shares will be issued if all these warrants are exercised), (iii) 3,800,000 share options, (iv) pursuant to the conditional subscription agreement dated 12 June 2007, the convertible bonds (the "Convertible Bonds") to be issued to Lehman Brothers Commercial Corporation Asia Limited ("Lehman Brothers") and (v) the preferred shares to be issued to GORE (the "Preferred Shares"). Details of the Convertible Bonds and Preferred Shares are set out in the announcements dated 13 June 2007 and 2 February 2007 respectively.

(b) The underlying share referred to in the following table (iv) illustrates the position based on the assumption that the conversion rights attaching to the Preferred Shares and Convertible Bonds are fully exercised. As at 30 June 2007, both of the Preferred Shares and the Convertible Bonds have not yet been issued.

(i) *Long position in the ordinary shares of HK\$0.00125 each in the Company as at 30 June 2007:*

Name of shareholders	Type of interests	Number of the shares held	Approximate percentage of issued share capital
Future Advance Holdings Limited	Beneficial	2,576,194,460	37.7%
China Zong Heng Holdings Limited	Corporate ( <i>Note</i> )	2,576,194,460	37.7%

*Note:*

These shares are held by Future Advance. Future Advance is the only substantial shareholder which is beneficially owned as to 37.5% by China Zong Heng Holdings Limited (which in turn is 100% beneficially owned by Mr. Yu Hongzhi), as to 12.5% by Ms. Ma Zheng who is the sole director of Future Advance, as to 27% by Zhong Nan Mining Group Limited (which in turn is 100% beneficially owned by Mr. Zhang Lei), as to 13% by Mr. Wu Yong Jin and as to the remaining 10% by Ms. Ma Yi.



(ii) *Long position in the ordinary shares of HK\$0.00125 each in the Company as at 30 June 2007 (related to acquisition of the shares between APAC Resources Limited 亞太資源有限公司 and other shareholders, the transaction was not yet completed as at 30 June 2007):*

Name of shareholders	Type of interests	Number of the shares held	Approximate percentage of issued share capital
APAC Resources Limited 亞太資源有限公司	Beneficial (Note)	862,912,520	12.64%

*Note:*

On 29 May 2007, a wholly-owned subsidiary of APAC Resources Limited 亞太資源有限公司 entered into the sale and purchase agreement with three existing shareholders for the acquisition of the total of 862,912,520 ordinary shares of the Company.

(iii) *Long position in the underlying shares or debentures of the Company as at 30 June 2007:*

Name of shareholders	Type of interests	Description of derivatives	Number of underlying shares	Approximate percentage of interests
Future Advance Holdings Limited	Beneficial	Convertible bond (Note 1)	313,503,280	4.6%
China Zong Heng Holdings Limited	Corporate	Convertible bond (Note 1)	313,503,280	4.6%
胡玉 (Ms. Hu Yu)*	Beneficial	Warrants (Note 2)	473,088,000	6.9%

*Notes:*

1. These shares are held by Future Advance. Future Advance is the only substantial shareholder which is beneficially owned as to 37.5% by China Zong Heng Holdings Limited (which in turn is 100% beneficially owned by Mr. Yu Hongzhi) and as to 12.5% by Ms. Ma Zheng who is the sole director of Future Advance.
  2. On 18 August 2005, 胡玉 (Ms. Hu Yu)<sup>#</sup>, a private investor of the Company, entered into a warrant placing agreement with the Company pursuant to which 胡玉 (Ms. Hu Yu)<sup>#</sup> is entitled to subscribe for 23,654,400 shares at an initial exercise price of HK\$0.32 per share within a period of two years commencing from the date of issue of the warrants which was 4 October 2005. Due to the share subdivision effective on 1 August 2006, each warrant has been adjusted to the effect of conferring right to 胡玉 (Ms. Hu Yu)<sup>#</sup> the right to subscribe for 20 subdivided share and the exercise price was adjusted to HK\$0.015 per subdivided share on the close of the business on 31 July 2006.
- (iv) Long position in the underlying shares or debentures of the Company as at 30 June 2007 (interest related to Convertible Bonds and Preferred Shares to be issued):

Name	Type of interests	Description of derivatives	Number of underlying shares	Approximate percentage of interests
Lehman Brothers Holdings Inc.	Beneficial	Convertible Bonds (Notes 3 & 5)	1,247,338,197	18.3%
Great Ocean Real Estate Limited	Beneficial	Preferred Shares (Notes 4 & 5)	2,805,235,924	41.1%
Zhang Zheng (張征)	Corporate	Preferred Shares (Notes 4 & 5)	2,805,235,924	41.1%

*Notes:*

3. The underlying shares are held by Lehman Brothers, which ultimate beneficial owner is Lehman Brothers Holdings Inc.. The total number of shares to which Lehman Brothers are entitled under the Convertible Bonds has taken into account the existing issued share capital of the Company and all outstanding securities, which may be convertible into or carry rights to subscribe for new shares. Based on the existing issued share capital and assuming full conversion of the convertible bonds held by Future Advance (see note 1 above) and exercise in full of all other securities carrying rights to subscribe for new shares including warrants and share options and other convertible securities convertible into new shares of the Company outstanding as at 30 June 2007, the maximum number of new shares to be issued upon full conversion of the Convertible Bonds is 1,247,338,197 shares, representing 10% of the issued share capital of the Company as enlarged by the full conversion of the aforesaid convertible securities. Details of which are set out in note 4 below.
4. These underlying shares are held by GORE, a company incorporated in the British Virgin Islands with limited liability, and Mr. Zhang Zheng (張征), is the sole beneficial owner of GORE. The Preferred Shares to be issued is carry conversion right convertible into ordinary shares of HK\$0.00125 each of the Company at the initial conversion rate of 1:1, subject to adjustments.
5. The abovementioned Convertible Bonds to Lehman Brothers and Preferred Shares to GORE have not yet been issued, as at the date of this report. The issue of the Convertible Bonds and the Preferred Shares are subject to a number of conditions, which have not yet been fully satisfied as at the date of this report.

Save as disclosed above, as at 30 June 2007, the directors are not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or who had an interest, directly or indirectly, in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or any other substantial shareholders whose interests or short position were recorded in the register required to be kept by the Company under Section 336 of the SFO.

### **Directors' rights to acquire shares**

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### **Competition and conflict of interests**

Mr. Yu Hongzhi, the executive director of the Company, is the director and legal representative of 宜昌弘訊管業有限公司 (“Yichang HongXun Conduit and Calling Company Limited”)<sup>#</sup>, which is engaged in selling and producing PE Pipes in China. Mr. Yu Hongzhi was not the controlling shareholder of 宜昌弘訊管業有限公司. Save as disclosed, as at 30 June 2007, none of the Directors, management shareholders, substantial shareholders and any of their respective associates has engaged in any business that competes or may compete directly or indirectly, with the business of the Group, or has or may have any other conflicts of interest with the Group during the six months ended 30 June 2007.

### **Audit committee**

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The audit committee comprises three members, Mr. Wan Tze Fan Terence (“Mr. Wan”), Mr. Liu Weichang (“Mr. Liu”) and Mr. Gao Sheng Yu (“Mr. Gao”) who are the independent non-executive Directors of the Company. The primary duties of the audit committee are to review the Company’s annual report and financial statements, quarterly reports and half-yearly report and to provide advice and comment thereon to the Board. The audit committee will also be responsible for reviewing and supervising the financial reporting and internal control procedures of the Group. The audit committee has reviewed the Group’s unaudited results for the three months and six months ended 30 June 2007 and has provided advice and comments thereon.

### **Remuneration committee**

The remuneration committee of the Company was established on 1 June 2005. The function of the remuneration committee is to consider and recommend to the Board on the Group's remuneration policy and structure for all remuneration of executive directors and senior management and to review and determine the remuneration packages of the executive directors and senior management. The remuneration committee comprises three members, Mr. Wan, Mr. Liu and Mr. Gao who are the independent non-executive Directors of the Company.

### **Purchase, sale or redemption of securities**

The Company had not redeemed any of its shares during the period ended 30 June 2007. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the period ended 30 June 2007.

### **Compliance with Code on Corporate Governance Practices**

The Company has complied with all the code provisions set out in Appendix 15, The Code on Corporate Governance Practices (the "Code") to the GEM Listing Rules throughout the accounting period for the six months ended 30 June 2007, save and except the following:

#### *Code Provision A.2.1*

This Code Provision stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

During the period under review, we still did not have an officer with the title of "Chief Executive Officer" (the "CEO"). The Code envisages that the management of the Board should rest on the Chairman, whereas the day-to-day management of the Company's business should rest on the CEO. Mr. Yu Hongzhi, the Chairman, is also responsible for the operation of production plant in Yichang City: this constitutes a deviation of Code Provision A.2.1. The Board still holds the view that this arrangement is appropriate for the Company but we do not compromise accountability and independent decision making for this since we have an audit committee, which all members are independent non-executive directors, to help ensure his accountability and independence.

#### *Code Provision A.4.1*

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

During the period under review, the Company has three independent non-executive directors, they are Mr. Wan, Mr. Liu and Mr. Gao, except for Mr. Gao who was appointed for a specific term of two years, the other two were not appointed for specific terms, but they are subject to retirement by rotation at least once every three years in accordance with the Company's Articles of Association. The Board had discussed and concluded that the current practice of appointing non-executive directors without specific terms but otherwise subject to retirement and re-election was fair and reasonable, and therefore will not change the terms of appointment of Mr. Wan and Mr. Liu.

#### *Code Provision B.1.4 and C.3.4*

Code Provision B.1.4 and C.3.4 stipulate that the remuneration committee and audit committee should make available their terms of reference, explaining their roles and the authorities delegated to them by the Board.

The Company has not yet disclosed the terms of reference of the remuneration committee and audit committee on the website of the Company since the Company's website is not yet ready. However, once it is ready for use, the Company will put the terms of reference on the Company's website. In addition, the terms of reference will be available from the Company on request.

### **Code of conduct regarding securities transactions by Directors**

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the six months ended 30 June 2007.

By Order of the Board  
**China Primary Resources Holdings Limited**  
**Yu Hongzhi**  
*Chairman*

Hong Kong, 3 August 2007

# *For identification purpose only. The English transliteration of the Chinese names in this report are included for information only, and should not be regarded as the official English names of such Chinese names.*

*As at the date of this report, the Board comprises Mr. YU Hongzhi, Ms. MA Zheng and Mr. CHIU Winerthan who are the executive Directors, Mr. WAN Tze Fan Terence, Mr. LIU Weichang and Mr. GAO Sheng Yu who are the independent non-executive Directors.*