

Interim Report 2010



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)

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET  
("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED  
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## ***HIGHLIGHTS***

Turnover for the six months ended 30 June 2010 was approximately HK\$70,271,000, representing an increase of approximately 631% from the corresponding period.

Loss attributable to owners of the Company for the same period amounted to approximately HK\$19,890,000 while it was loss of approximately HK\$33,982,000 in the corresponding period.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2010.

## ***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 (collectively referred to as the “Group”) for the six months ended 30 June 2010 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.

## UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended		Six months ended	
		30 June		30 June	
		2010	2009	2010	2009
		HK\$'000	HK\$'000 (restated)	HK\$'000	HK\$'000 (restated)
Turnover	2	32,115	3,879	70,271	9,609
Other income and gain	3	45	8	75	44
Cost of inventories sold		(24,708)	(3,377)	(60,152)	(8,841)
Staff costs, including directors' remuneration		(1,510)	(1,218)	(2,947)	(2,963)
Depreciation		(754)	(598)	(1,480)	(1,063)
Amortisation of mining rights		(2,064)	(2,016)	(4,089)	(4,032)
Amortisation of land use rights		(178)	(174)	(353)	(348)
Other operating expenses		(5,582)	(3,567)	(10,978)	(6,798)
Share of losses of associates, net		-	(1,553)	-	(10,282)
Finance costs	4	(6,873)	(6,197)	(13,308)	(12,641)
<b>Loss before income tax</b>	5	<b>(9,509)</b>	(14,813)	<b>(22,961)</b>	(37,315)
Income tax credit/(charge)	6	(673)	1,108	2,142	2,216
<b>Loss for the period</b>		<b>(10,182)</b>	(13,705)	<b>(20,819)</b>	(35,099)
Loss attributable to:					
Owners of the Company		(9,709)	(13,158)	(19,890)	(33,982)
Minority interests		(473)	(547)	(929)	(1,117)
		<b>(10,182)</b>	(13,705)	<b>(20,819)</b>	(35,099)
<b>LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>	8				
Basic and diluted		<b>(0.79 cents)</b>	(1.33 cents)	<b>(1.62 cents)</b>	(3.43 cents)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Three months ended		Six months ended	
	30 June		30 June	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period	<b>(10,182)</b>	(13,705)	<b>(20,819)</b>	(35,099)
Other comprehensive income:				
Exchange differences on translation of associates	-	16,587	-	18,106
Exchange differences on translation of foreign operations	<b>5,138</b>	49	<b>5,879</b>	783
Other comprehensive income for the period, net of tax	<b>5,138</b>	16,636	<b>5,879</b>	18,889
Total comprehensive income for the period	<b>(5,044)</b>	2,931	<b>(14,940)</b>	(16,210)
Total comprehensive income for the period attributable to:				
Owners of the Company	<b>(5,160)</b>	3,402	<b>(14,680)</b>	(15,272)
Minority interests	<b>116</b>	(471)	<b>(260)</b>	(938)
	<b>(5,044)</b>	2,931	<b>(14,940)</b>	(16,210)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF  
FINANCIAL POSITION**

		<b>30 June</b>	31 December
		<b>2010</b>	2009
<i>Notes</i>		<b>HK\$'000</b>	<i>HK\$'000</i>
		<b>(Unaudited)</b>	(Audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
		<b>82,448</b>	83,956
		<b>30,910</b>	30,926
		<b>205,129</b>	206,963
		<b>314,800</b>	314,800
		<b>57,524</b>	57,231
		<b>690,811</b>	693,876
<b>Current assets</b>			
		<b>44,023</b>	50,719
	<i>10</i>	<b>48,610</b>	10,788
		<b>86,917</b>	54,550
		<b>46</b>	45
		<b>97,518</b>	76,071
		<b>277,114</b>	192,173
<b>Current liabilities</b>			
	<i>11</i>	<b>4,220</b>	2,512
		<b>9,928</b>	2,457
	<i>12</i>	<b>245,676</b>	241,271
		<b>25,582</b>	–
		<b>57,411</b>	–
		<b>342,817</b>	246,240

		<b>30 June 2010</b>	31 December 2009
	<i>Notes</i>	<b>HK\$'000</b> <b>(Unaudited)</b>	<b>HK\$'000</b> <b>(Audited)</b>
<b>Net current liabilities</b>		<b>(65,703)</b>	(54,067)
<b>Total assets less current liabilities</b>		<b>625,108</b>	639,809
<b>Non-current liabilities</b>			
Deferred tax liabilities		<b>178,491</b>	180,634
Convertible preferred shares	<i>13</i>	<b>53,374</b>	50,992
		<b>231,865</b>	231,626
<b>Net assets</b>		<b>393,243</b>	408,183
<b>EQUITY</b>			
Share capital	<i>14</i>	<b>15,370</b>	15,370
Reserves		<b>344,876</b>	359,556
<b>Equity attributable to owners of the Company</b>		<b>360,246</b>	374,926
<b>Minority interests</b>		<b>32,997</b>	33,257
<b>Total equity</b>		<b>393,243</b>	408,183

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Equity attributable to owners of the Company										
		Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Convertible bonds reserve <i>HK\$'000</i>	Employee compensation reserve <i>HK\$'000</i>	Statutory surplus reserve <i>HK\$'000</i>	Convertible preferred		Exchange translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
							shares	Warrants				
Balance at 1 January 2009		10,247	295,649	18,985	38,031	5,110	753,639	7,619	168,910	(153,427)	38,341	1,183,104
Total comprehensive income for the six months ended 30 June 2009		-	-	-	-	-	-	-	18,710	(33,982)	(938)	(16,210)
Balance at 30 June 2009		10,247	295,649	18,985	38,031	5,110	753,639	7,619	187,620	(187,409)	37,403	1,166,894

		Equity attributable to owners of the Company										
		Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Convertible bonds reserve <i>HK\$'000</i>	Employee compensation reserve <i>HK\$'000</i>	Statutory surplus reserve <i>HK\$'000</i>	Convertible preferred		Exchange translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
							shares	Warrants				
Balance at 1 January 2010		15,370	365,726	17,922	38,031	5,110	753,639	-	188,018	(1,008,890)	33,257	408,183
Total comprehensive income for the six months ended 30 June 2010		-	-	-	-	-	-	-	5,210	(19,890)	(260)	(14,940)
Balance at 30 June 2010		15,370	365,726	17,922	38,031	5,110	753,639	-	193,228	(1,028,780)	32,997	393,243



**UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	Six months ended <b>30 June 2010</b> <i>HK\$'000</i>	Six months ended 30 June 2009 <i>HK\$'000</i>
Net cash used in operating activities	(50,474)	(33,823)
Net cash from investing activities	20,815	7,377
Net cash from/(used in) financing activities	<u>50,890</u>	<u>(6,665)</u>
Net increase/(decrease) in cash and cash equivalents	21,231	(33,111)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	76,071	99,361
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>216</u>	<u>488</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>97,518</u></u>	<u><u>66,738</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	<u><u>97,518</u></u>	<u><u>66,738</u></u>



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

Since 2009, the directors have been in discussion with the Joint and Several Liquidators of Lehman Brothers Commercial Corporation Asia Limited (In Liquidation) (“Lehman Brothers”), the holders of the 4.5% convertible bonds, for the settlement of the bonds which fall due on 31 October 2010 (the “Proposed Settlement”). As at the end of reporting period and at the date of approval of these financial statements, the Group has yet to conclude the Proposed Settlement with Lehman Brothers. The Group’s liquidity and its ability to meet its operating costs and financial obligations are dependent on Lehman Brothers continuing to exercise forbearance pending the outcome of the Proposed Settlement.

In the opinion of the directors, if the Proposed Settlement accomplishes the expected satisfactory results, the Group will have the ability to generate funds internally sufficient to meet its future working capital requirements and financial obligations. Accordingly, the directors consider that it is appropriate to prepare these financial statements on a going concern basis.

The unaudited condensed consolidated financial statements incorporated the financial statements of the Company and its principal subsidiaries for the period ended 30 June 2010. All material intercompany transactions and balances within the Group are eliminated on consolidation.

The accounting policies adopted in the unaudited condensed consolidated results are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009.

In this reporting period, the Group had applied for the first time, a number of new HKFRSs and HKAS issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2010. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting period as prepared and presented.

Certain comparative amounts have been reclassified to conform with the current period's presentation.

## 2. Turnover

Turnover, which is also revenue, represents the sales value of goods supplied to customers and is analysed as follows:

	Three months ended 30 June		Six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Sales of PE/FRP Pipes	27,000	3,055	45,540	7,088
Sales of composite materials	5,115	824	24,731	2,521
	<u>32,115</u>	<u>3,879</u>	<u>70,271</u>	<u>9,609</u>

## 3. Other income and gain

	Three months ended 30 June		Six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Bank interest income	9	8	36	44
Sundry income	36	–	39	–
	<u>45</u>	<u>8</u>	<u>75</u>	<u>44</u>

#### 4. Finance costs

	Three months ended 30 June		Six months ended 30 June	
	2010 <i>HK\$'000</i> (Unaudited)	2009 <i>HK\$'000</i> (Unaudited)	2010 <i>HK\$'000</i> (Unaudited)	2009 <i>HK\$'000</i> (Unaudited)
Interest expenses on				
convertible bonds mature				
within five years	4,942	5,006	9,884	10,052
Imputed interest on				
convertible preferred shares	1,191	1,191	2,382	2,382
Interest on short-term loan	740	–	1,042	–
others	–	–	–	207
	<u>6,873</u>	<u>6,197</u>	<u>13,308</u>	<u>12,641</u>

#### 5. Loss before income tax

Loss before income tax is arrived at after charging:

	Three months ended 30 June		Six months ended 30 June	
	2010 <i>HK\$'000</i> (Unaudited)	2009 <i>HK\$'000</i> (Unaudited)	2010 <i>HK\$'000</i> (Unaudited)	2009 <i>HK\$'000</i> (Unaudited)
Minimum lease payments				
under operating lease				
charges in respect of land				
and buildings	537	614	1,063	1,261
Depreciation ( <i>Note</i> )	1,799	1,085	3,563	1,868
Contribution to retirement				
benefit scheme	88	17	208	32
Write-off of property, plant				
and equipment	23	–	2,420	–
	<u>23</u>	<u>–</u>	<u>2,420</u>	<u>–</u>

*Note:* Depreciation expense of approximately HK\$1,045,000 and HK\$2,083,000 for the three months and six months ended 30 June 2010 respectively (three months and six months ended 30 June 2009: approximately HK\$318,000 and HK\$805,000) has been expensed in cost of goods sold.

## 6. Income tax credit/(charge)

(a) Taxation in the unaudited condensed consolidated income statement represents:

Three months ended 30 June		Six months ended 30 June	
2010	2009	2010	2009
HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

Group:

Deferred taxation				
– attributable to the origination and reversal of temporary differences, net	(673)	1,108	2,142	2,216

Total tax credit/(charge) for the period	(673)	1,108	2,142	2,216
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(b) No provision has been made for Hong Kong profits tax as the Group has no assessable profit arising from Hong Kong during the three months and six months ended 30 June 2010 (three months and six months ended 30 June 2009: Nil). Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

In accordance with various approval documents issued by the State Tax Bureau and the Local Tax Bureau of the PRC, 宜昌富連江複合材料有限公司, a wholly-owned subsidiary of the Company, established as a wholly foreign-owned enterprise in the PRC, is entitled to an exemption from the PRC state and local corporate income tax (“CIT”) for the first two profitable financial years of its operation and thereafter a 50% relief from the state CIT of the PRC for the following three financial years (the “Tax holiday”). Upon expiry of the Tax Holiday, the usual PRC CIT rate is 25%. No provision for CIT has been made as the subsidiary sustained a loss during the three months and six months ended 30 June 2010 and prior years.

## 7. Dividend

The Board does not recommend the payment of any interim dividend in respect of the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

## 8. Loss per share attributable to owners of the Company

The calculation of basic loss per share is based on the loss for the three months and six months ended 30 June 2010 attributable to owners of the Company, and the weighted average number of ordinary shares 1,229,603,280 (three months and six months ended 30 June 2009: 991,879,979 as restated) in issue during the three months and six months ended 30 June 2010.

No adjustment has been made to the basic loss per share amounts presented for the periods ended three months and six months ended 30 June 2010 and 30 June 2009 in respect of a dilution as the impact of the convertible bonds, convertible preferred shares, share options and warrants outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

The calculation of diluted loss per share is based on the loss for the three months and six months ended 30 June 2010 attributable to owners of the Company, adjusted to reflect the interest on the convertible bonds and convertible preferred shares and related income tax effect. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the three months and six months ended 30 June 2010, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the full redemption or conversion of all dilutive potential ordinary shares into ordinary shares.

The basic and diluted loss per share are calculated as follows:

Three months ended 30 June		Six months ended 30 June	
2010	2009	2010	2009
HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

### Loss

Loss for the period

attributable to the owners  
of the Company used in  
the basic loss per share  
calculation

<u>(9,709)</u>	<u>(13,158)</u>	<u>(19,890)</u>	<u>(33,982)</u>
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Three months ended 30 June		Six months ended 30 June	
2010	2009	2010	2009
'000	'000	'000	'000
	(restated)		(restated)

## Number of shares

Weighted average number of ordinary shares for the purposes of calculating basic loss per share

<b>1,229,603</b>	991,880	<b>1,229,603</b>	991,880
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As the convertible bonds, convertible preferred shares, share options and warrants, where applicable, outstanding during the reporting periods had an anti-dilutive effect on the basic loss per share, the conversion of the above potential dilutive shares was not assumed in the calculation of the diluted loss per share in both reporting periods. Accordingly, the basic and diluted loss per share for the respective reporting periods are the same.

## 9. Segment information

### Business segment

	Manufacture and sale of PE/FRP pipes		Sale of composite materials		Mining operation		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from external customers	45,540	7,088	24,731	2,521	-	-	70,271	9,609
Inter-segment revenue	-	-	-	-	-	-	-	-
Reportable segment revenue	<b>45,540</b>	7,088	<b>24,731</b>	2,521	-	-	<b>70,271</b>	9,609
Reportable segment gain/(loss)	<b>3,689</b>	(3,261)	<b>(1,078)</b>	(1,437)	<b>(4,119)</b>	(4,119)	<b>(1,508)</b>	(8,817)
Reportable segment assets	<b>323,911</b>	193,175	<b>24,462</b>	11,804	<b>205,212</b>	210,485	<b>553,585</b>	415,464
Reportable segment liabilities	<b>(70,937)</b>	(16,490)	-	-	<b>(210)</b>	(157)	<b>(71,147)</b>	(16,647)

Manufacture and sale of PE/FRP pipes		Sale of composite materials		Mining operation		Consolidated	
Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
2010	2009	2010	2009	2010	2009	2010	2009
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

Other segment information:

Share of losses of associates, net					-	(10,282)	-	(10,282)
Interest revenue							36	44
Finance costs							(13,308)	(12,641)
Depreciation and impairment losses	(5,617)	(1,474)	-	-	-	(4)	(5,617)	(1,478)
Unallocated depreciation							(366)	(390)
							<u>(5,983)</u>	<u>(1,868)</u>
Amortisation of land use rights	(353)	(348)	-	-	-	-	(353)	(348)
Amortisation of mining rights					(4,089)	(4,032)	(4,089)	(4,032)
Income tax credit	-	-	-	-	1,022	1,008	1,022	1,008
Unallocated income tax credit							1,120	1,208
							<u>2,142</u>	<u>2,216</u>
Available-for-sale investments					314,800	1,119,832	314,800	1,119,832



## 10. 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 vary for different customers from one month to a year depending on the size and nature of the customers. The Group has set a maximum credit limit for each customer. 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 analysis of the trade receivables as at the end of reporting period, based on the invoice date, is as follows:

	<b>30 June</b> <b>2010</b> <i>HK\$'000</i> <b>(Unaudited)</b>	31 December 2009 <i>HK\$'000</i> (Audited)
Within 30 days	<b>9,620</b>	7,862
31 – 60 days	<b>4,667</b>	743
61 – 90 days	<b>19,583</b>	787
Over 90 days	<b>14,740</b>	1,396
	<b>48,610</b>	10,788

## 11. Trade payables

An aging analysis of trade payables, based on the invoice date, is as follows:

	<b>30 June</b> <b>2010</b> <i>HK\$'000</i> <b>(Unaudited)</b>	31 December 2009 <i>HK\$'000</i> (Audited)
Within 30 days	<b>433</b>	925
31 – 60 days	<b>893</b>	584
61 – 90 days	<b>1,734</b>	62
Over 90 days	<b>1,160</b>	941
	<b>4,220</b>	2,512



## 12. Convertible bonds

The Group's and the Company's outstanding convertible bonds as at 30 June 2010 and 31 December 2009 are as follows:

The 4.5% convertible bonds were issued to Lehman Brothers on 31 October 2007 with a nominal value of HK\$246,250,000 and shall be redeemed at the maturity date on 31 October 2010. The bonds are convertible into ordinary shares of the Company at an initial conversion price of HK\$0.2 per conversion share (subject to adjustments in accordance with the terms of the convertible bonds) at any time during the period commencing from the date of issue of convertible bonds. As at 30 June 2010, the convertible bonds can be converted into 184,733,481 ordinary shares of the Company. Coupon interest of 4.5% per annum will be paid semi-annually in arrears until the settlement date. In 2008, Lehman Brothers was put into liquidation and Joint and Several Liquidators were appointed. The liquidation of Lehman Brothers is still in progress as of the date of approval of these financial statements.

The Company has no right to make early redemption without the consent of Lehman Brothers or its designated affiliates.

Since the actual number of the ordinary shares of the Company to be issued under the convertible bonds are subjected to the actual and potential number of new ordinary shares of the Company that may be issued upon full conversion of, or exercise of the subscription rights attaching to, all outstanding convertible preferred shares and share options of the Company and it cannot be determined until the date when the conversion takes place, no adjustments should be made to the convertible bonds in connection with the rights issue and share consolidation.

Interest rate on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 9.11% per annum and the carrying value of the convertible bonds as at 30 June 2010 is HK\$245,676,000 (as at 31 December 2009: HK\$241,271,000).

The convertible bonds recognised in the unaudited condensed consolidated statement of financial position are calculated as follows:

	<b>30 June 2010</b>	31 December 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Nominal value of convertible bonds ( <i>Note</i> )	<b>246,250</b>	252,520
Equity component	<b>(22,163)</b>	(23,226)
Direct transaction costs attributable to the liability component	<b>(7,087)</b>	(7,087)
	<hr/>	<hr/>
Liability component on initial recognition	<b>217,000</b>	222,207
Accumulated interest expenses recognised	<b>52,716</b>	44,082
Accumulated interest paid	<b>(24,040)</b>	(18,623)
Redemption of convertible bonds and related interest	–	(6,395)
	<hr/>	<hr/>
Liability component at end of period/year	<b>245,676</b>	241,271
Less: current portion	<b>(245,676)</b>	(241,271)
	<hr/>	<hr/>
Non-current portion	<b>–</b>	–
	<hr/> <hr/>	<hr/> <hr/>

*Note:* On 26 April 2009, the Group had fully redeemed a convertible bond of nominal value of HK\$6,270,000.

### 13. Convertible preferred shares

On 26 October 2007, the authorised convertible preferred shares (the “CPS”) capital of HK\$5 million divided into 4,000,000,000 CPS of HK\$0.00125 each was created by the reclassification of the authorised ordinary shares capital. As at 30 June 2010, the Company allotted and issued 2,802,235,294 CPS at HK\$0.34 per CPS.

After the rights issue effective on 15 July 2009, the adjusted conversion price per conversion share and adjusted number of ordinary shares of the Company to be converted are HK\$0.265 and 3,593,964,542 respectively. The adjusted conversion price per conversion share and the adjusted number of ordinary shares of the Company to be converted were further adjusted after the share consolidation on 20 August 2009 to HK\$2.651 and 359,396,454 respectively.

The CPS recognised in the Company's and the Group's statements of financial position is calculated as follows:

	<b>Number of ordinary shares to be issued upon full conversion of CPS</b>	<b>Equity component HK\$'000</b>	<b>Liability component HK\$'000</b>	<b>Total HK\$'000</b>
At 31 December 2009 (audited)	359,396,454	753,639	50,992	804,631
Imputed interest	–	–	2,382	2,382
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 30 June 2010 (unaudited)</b>	<b>359,396,454</b>	<b>753,639</b>	<b>53,374</b>	<b>807,013</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Interest rate on the CPS is calculated using the effective interest method by applying the effective interest rate of 9.49% per annum.

The principal terms of the CPS are set out below:

- (a) The holders of the CPS are not entitled to vote at any general meeting of the Company.
- (b) Each CPS shall be entitled to receive a fixed cumulative dividend on an annual basis in arrears in preference to any dividend on the ordinary share at a rate of 0.5% per annum of the principal amount of the CPS then outstanding at the year end date.
- (c) Holders of the CPS shall have the right to convert, at any time from the date of allotment of the CPS without payment of any additional consideration, into ordinary shares of HK\$0.0125 each at the adjusted conversion rate of 0.1283 (subject to adjustments from time to time pursuant to the terms of the CPS).

- (d) Upon the value of the cumulative dividends to be distributed by Xin Shougang to the Group (the "Dividends") reaches HK\$485.5 million or the Group has disposed of its interest in Xin Shougang at the disposal consideration of more than HK\$485.5 million in aggregate without incurring any losses on the disposal or the total of the cumulative dividends and the disposal consideration is more than HK\$485.5 million without incurring any losses on the disposal, the Company may at any time redeem in cash not more than half of the CPS issued at a price equal to their principal amount plus a premium of 10% per annum together with any accrued and unpaid dividends of CPS thereon.
- (e) The CPS rank preference to any and other classes of ordinary shares of the Company (including dividend distribution, capital distribution, return of capital upon the liquidation, winding up or dissolution of the Company or otherwise).
- (f) Upon the completion of the Disposal (as defined below), the CPS will be cancelled.

#### 14. Share capital

	<b>30 June 2010</b>	31 December 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Authorised:		
9,600,000,000 ordinary shares of HK\$0.0125 each	<b>120,000</b>	120,000
Issued and fully paid:		
1,229,603,280 ordinary shares of HK\$0.0125 each	<b>15,370</b>	15,370

## 15. Operating lease arrangement

The Group is the lessee in respect of certain of its office premises held under operating leases. The leases typically run for an initial period of one to three years at fixed rental. None of the leases includes contingent rentals.

As at 30 June 2010, the Group had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

	<b>30 June 2010</b>	31 December 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Within one year	<b>2,151</b>	2,077
After one year but within five years	<b>1,353</b>	1,720
	<hr/> <b>3,504</b> <hr/>	<hr/> 3,797 <hr/>

## 16. Capital commitment

Capital commitments outstanding at the end of reporting period not provided for in the unaudited condensed consolidated financial statements were as follows:

	<b>30 June 2010</b>	31 December 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Property, plant and equipment contracted but not provided for	<b>33,581</b>	32,588
	<hr/> <b>33,581</b> <hr/>	<hr/> 32,588 <hr/>



## **MANAGEMENT DISCUSSION AND ANALYSIS**

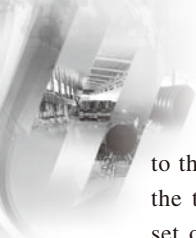
### **Business review and future outlook**

The financial tsunami broke out in the second half of the year 2008 had great impact on the economy of the whole world, including the People's Republic of China (the "PRC") and Hong Kong. The performance and financial position of a lot of business corporations are greatly affected. The Group, however, is still maintaining a competitive position in the market with effective cost control and cash management. Turnover for the first half of 2010 was improved significantly due to the recovering economic condition.

The business segment of the Polyethylene Pipes ("PE Pipes") and Fibre Glass Reinforced Plastic Pipes ("FRP Pipes") was performing well in the first half of 2010 and was the main business of the Group in 2010. This business segment has been the core business of the Group for many years. The PE Pipes and FRP Pipes are products employed for constructions and city development in the PRC. Our major customers are mainly government entities of different provinces and cities in the PRC, or their suppliers. Given the rapid and continuous development of the PRC market, the Directors believe that the demands for our products are both sustainable and look set to increase.

### **The Proposed Disposal**

On 9 April 2010 (after trading hours), Yichang Shoukong Industries Co., Limited (宜昌首控實業有限公司) ("Yichang Shoukong"), a wholly-owned subsidiary of the Company, and 首鋼控股有限責任公司 (transliterated as Shougang Holdings Limited Liability Company) ("Shougang") entered into the agreement (the "Agreement") pursuant to which Yichang Shoukong has conditionally agreed to sell, and Shougang has conditionally agreed to purchase, the 12.21% equity interest in the registered paid up capital of 新首鋼資源控股有限公司 (transliterated as Xin Shougang Zi Yuan Holdings Limited) ("Xin Shougang") at an aggregate consideration of HK\$314.8 million (the "Disposal"). The consideration shall be satisfied by Shougang as to HK\$25.34 million by cash (or RMB22.28 million as agreed between the parties to the Agreement) and as to HK\$289.46 million by way of procuring Great Ocean Real Estate Limited to transfer 2,802,235,294 preferred shares (the "Preferred Shares") (the non-voting redeemable convertible preferred share(s) of HK\$0.00125 each in the existing share capital of the Company carrying rights to convert into conversion share(s))



to the Company for repurchase (“Share Repurchase”) and cancellation subject to the terms and upon fulfillment of the conditions of the Agreement. Details are set out in the announcement dated 22 April 2010 and the circular dated 8 June 2010 of the Company.

### **Proposed decrease in authorised share capital**

As at the date of this report, the authorised share capital of the Company is HK\$125,000,000 divided into 9,600,000,000 ordinary shares of HK\$0.0125 each in the existing share capital of the Company (the “Shares”) and 4,000,000,000 Preferred Shares of HK\$0.00125 each. As a result of the Share Repurchase, all the Preferred Shares in issue will be cancelled. In order to extinguish the Preferred Share class from the authorised share capital of the Company, the Board proposed to diminish the authorised share capital of the Company from HK\$125,000,000 to HK\$120,000,000 by the cancellation of 4,000,000,000 Preferred Shares of HK\$0.00125 each in the authorised share capital of the Company (the “Authorised Share Capital Decrease”). As a result, the authorised share capital of the Company will become HK\$120,000,000 divided into 9,600,000,000 Shares of HK\$0.0125 each. The Authorised Share Capital Decrease was passed as an ordinary resolution by the shareholders of the Company (“Shareholders”) by way of poll at the extraordinary general meeting held on 28 June 2010. Completion shall be conditional upon the fulfillment or waiver (as the case may be) of the conditions precedent to the Agreement or such other date as the parties to the Agreement may agree in writing. Details are set out in the announcement dated 22 April 2010 and the circular dated 8 June 2010 of the Company.

Save as mentioned above, during the period under review, the Group continued to engage in (i) manufacture and sale of PE Pipes and FRP Pipes and sale of composite materials; and (ii) mining businesses operating primarily in the markets of the independent sovereign state of Mongolia.





## **Financial review**

Turnover was approximately HK\$70,271,000 for the period under review, which represented an increase of 631% when compared with approximately HK\$9,609,000 in the corresponding period. The increase in sale was mainly due to strong rebound of the global economy since 2009. The unaudited loss before income tax for the period under review was approximately HK\$22,961,000 while the unaudited loss before income tax for corresponding period was approximately HK\$37,315,000. The loss attributable to owners of the Company was approximately HK\$19,890,000 (six months ended 30 June 2009: loss of approximately HK\$33,982,000). The improvement in loss for the period under review was mainly attributable to the significant increase in turnover during the period under review. In the current economic environment, the Board will continue to adopt the stringent cost control and maintain a low and effective overheads structure and prudently utilize the corporate resources to create wealth for the Shareholders.

The current major challenge faced by the Group is to find a solution to settle the convertible bonds with Lehman Brothers Commercial Corporation Asia Limited (in liquidation) (“Lehman Brothers”). The liquidation of Lehman Brothers was totally unexpected. Because the convertible bonds issued by Lehman Brothers are due for redemption in October 2010, the Group is now in a net current liability position. The Company has been negotiating with the Joint and Several Liquidators of Lehman Brothers to look for a settlement solution. The directors are doing their best to investigate and come to a solution. Shareholders will be informed once there is a progress.

## **Liquidity and financial resources**

With the funds raised previously and the internal resources of the Company and subject to the settlement arrangement to be entered into between the Company and the Joint and Several Liquidators of Lehman Brothers, as at 30 June 2010, the Directors anticipate that the Group has adequate financial resources to meet its ongoing operations and future development.



## **Employee information**

As at 30 June 2010, the Group has 5 full-time employees working in Hong Kong and 80 full-time employees working in the PRC respectively. The total of employee remuneration, including remuneration of the Directors but excluding cost of share option granted, for the six months under review amounted to approximately HK\$2,947,000. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

## **Capital structure**

The ordinary shares of the Company were listed on the GEM of the Stock Exchange on 13 December 2001. There are 2,802,235,294 non-listed preferred shares (“Preferred Shares”) held by Great Ocean Real Estate Limited (“GORE”). There has been no change in the capital structure of the Company during the period under review.

## **Significant investments**

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

## **Material acquisition and disposals of subsidiaries and affiliated companies/ future plans for material investments**

Save as disclosed above, there were no material acquisition or disposal of subsidiaries and affiliated companies during the six months ended 30 June 2010.

## **Segmental information**

Details have been set out in note 9 under “Notes to the unaudited 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 has pledged building of approximately HK\$43,248,000 and land use rights of approximately HK\$30,910,000 to a PRC bank to obtain a short-term loan (six months ended 30 June 2009: Nil). The Group did not have any significant contingent liabilities.

### **Subsequent Events**

The Shareholders approved the Disposal and the Authorised Share Capital Decrease at the extraordinary general meeting held on 28 June 2010. However, as at the date of this report, the Disposal and the Authorised Share Capital Decrease are not yet completed. The completion shall be conditional upon the fulfillment or waiver (as the case may be) of the conditions precedent to the Agreement or such other date as the parties to the Agreement may agree in writing.

### **Gearing ratio**

As at 30 June 2010, the Group had cash and cash equivalents of approximately HK\$97,518,000 in its current assets while its current liabilities stood at approximately HK\$342,817,000, and the Group had long-term loan of approximately HK\$53,374,000 and its shareholders' funds amounted to approximately HK\$360,246,000. Other than the Convertible Bonds issue, the Group had a net cash position and its gearing ratio should be approximately 14.8% (long-term loan to equity attributable to equity holders of the Company).

### **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 2010, 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 1,229,603,280 ordinary shares in issue as at 30 June 2010, but not on the total number of issued shares upon full conversion or exercise of (i) the convertible bonds (the "Convertible Bonds") issued to Lehman Brothers Commercial Corporation Asia Limited ("Lehman Brothers") (in liquidation) pursuant to the conditional subscription agreement dated 12 June 2007, (ii) the preferred shares issued to Great Ocean Real Estate Limited ("GORE") (the "Preferred Shares") and (iii) the 73,601,600 (adjusted) outstanding share options granted under the share option scheme adopted by the Company on 28 November 2001.

- (i) *Long position in the ordinary shares of HK\$0.0125 each in the Company as at 30 June 2010:*

Name of Director	Type of interests	Number of ordinary shares held		Approximate percentage of interests
		Type of interests	Number of ordinary shares	
Ms. Ma Zheng	Beneficial (Note 1)		8,100,000 (Note 2)	0.66%

*Notes:*

1. In addition to 8,100,000 Shares held in her own name, Ms. Ma Zheng is holding 12.5% of the equity interest of Future Advance Holdings Limited (“Future Advance”) and Future Advance beneficially owns 23.39% of the equity interest of the Company. For information purpose, Ms. Ma Zheng is an executive director of the Company and the sole director of Future Advance.
2. Adjustment was made to the balances of the number of ordinary shares resulting from the consolidation (“Share Consolidation”) of every 10 existing ordinary shares of HK\$0.00125 each in the issued and unissued share capital into one consolidated share of HK\$0.0125 each in the issued and unissued share capital of the Company duly approved at the extraordinary general meeting held on 20 August 2009 by the shareholders and becoming effective on 21 August 2009.

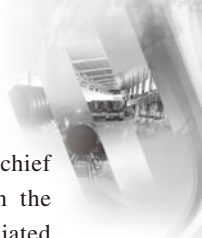
(ii) *Long position in the underlying shares or debentures of the Company as at 30 June 2010:*

<b>Name of Directors</b>	<b>Type of interests</b>	<b>Description of securities</b>	<b>Number of underlying shares</b>	<b>Approximate percentage of interests</b>
Ms. Ma Zheng	Beneficial	Share Option (Note 1)	2,512,000	0.20%
Mr. Liu Weichang	Beneficial	Share Option (Note 2)	376,800	0.03%
Mr. Wan Tze Fan Terence	Beneficial	Share Option (Note 3)	376,800	0.03%



*Notes:*

1. On 8 January 2008, Ms. Ma Zheng, the sole director of Future Advance and an executive Director, had been granted 20,000,000 share options (pursuant to the completion of the Rights Issue and the Share Consolidation, the number of share options has been adjusted to 2,512,000 on 20 August 2009) under the existing share option scheme adopted in compliance with Chapter 23 of the GEM Listing Rules which carry rights to subscribe for 20,000,000 new Shares at the current exercise price of HK\$0.22 per new Shares (pursuant to the completion of the Rights Issue and the Share Consolidation, the right to subscribe for new Shares and the subscription price of the share options have been adjusted to 2,512,000 and HK\$1.752 per new Share respectively on 20 August 2009).
2. On 8 January 2008, Mr. Liu Weichang, an independent non-executive Director, had also been granted 3,000,000 share options (pursuant to the completion of the Rights Issue and the Share Consolidation, the number of share options has been adjusted to 376,800 on 20 August 2009) under the existing share option scheme adopted in compliance with Chapter 23 of the GEM Listing Rules which carry rights to subscribe for 3,000,000 new Shares at the current exercise price of HK\$0.22 per new Shares (pursuant to the completion of the Rights Issue and the Share Consolidation, the right to subscribe for new Shares and the subscription price of the share options have been adjusted to 376,800 and HK\$1.752 per new Share respectively on 20 August 2009).
3. On 8 January 2008, Mr. Wan Tze Fan Terence, an independent non-executive Director, had also been granted 3,000,000 share options (pursuant to the completion of the Rights Issue and the Share Consolidation, the number of share options has been adjusted to 376,800 on 20 August 2009) under the existing share option scheme adopted in compliance with Chapter 23 of the GEM Listing Rules which carry rights to subscribe for 3,000,000 new Shares at the current exercise price of HK\$0.22 per new Shares (pursuant to the completion of the Rights Issue and the Share Consolidation, the right to subscribe for new Shares and the subscription price of the share options have been adjusted to 376,800 and HK\$1.752 per new Share respectively on 20 August 2009).




Save as disclosed above, as at 30 June 2010, none of the directors and chief executive of the Company had any other 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. Further details are set out in the announcement dated 17 March 2004. As at 30 June 2010, 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 2010, the Company had granted share options under the Post-Scheme to subscribe for 857,000,000 shares, of which 176,000,000 options were exercised, no options were cancelled, 95,000,000 options were lapsed and 586,000,000 options (which was adjusted to 73,601,600 options upon the Rights Issue and Share Consolidation) remain outstanding and not yet exercised. The total number of shares in respect of which options may be granted under the Post-Scheme is not permitted to exceed 10% 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. 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% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1% 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, (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), and (iii) the nominal value of the Company's share. 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 2010 were as follows:

Grantees	Date granted	Balance	Granted	Exercised	Lapsed	Balance	Period	Exercise price per share
		as at 1 January 2010 <i>(Note)</i>	during the period	during the period	during the period	as at 30 June 2010 <i>(Note)</i>	during which the options are exercisable	
Ms. Ma Zheng (Director)	8 January 2008	2,512,000	-	-	-	2,512,000	8 July 2008 to 27 November 2011	HK\$1.752
Mr. Wan Tze Fan Terence (Director)	8 January 2008	376,800	-	-	-	376,800	8 July 2008 to 27 November 2011	HK\$1.752
Mr. Liu Weichang (Director)	8 January 2008	376,800	-	-	-	376,800	8 July 2008 to 27 November 2011	HK\$1.752
Employees	8 January 2008	70,336,000	-	-	-	70,336,000	8 July 2008 to 27 November 2011	HK\$1.752
		<u>73,601,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,601,600</u>		

*Note:* The number of share options and exercise price have been adjusted after the Rights Issue and Share Consolidation.

No share options were granted by the Company and no share options were exercised or lapsed during the period under review.

## ***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 2010, 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:

The approximate percentage of interest set out below is based on 1,229,603,280 ordinary shares in issue as at 30 June 2010, but not on the total number of issued shares upon full conversion or exercise of (i) the Convertible Bonds issued to Lehman Brothers (in liquidation) pursuant to the conditional subscription agreement dated 12 June 2007, (ii) the Preferred Shares issued to GORE and (iii) the 73,601,600 (adjusted) outstanding share options granted under the share option scheme adopted by the Company on 28 November 2001.

(i) *Long position in the ordinary shares of HK\$0.0125 each in the Company as at 30 June 2010:*

<b>Name of shareholders</b>	<b>Type of interests</b>	<b>Number of shares held</b>	<b>Approximate percentage of interests</b>
Future Advance Holdings Limited	Beneficial	287,619,446	23.39%
China Zong Heng Holdings Limited	Corporate (Note 1)	287,619,446	23.39%
Mr. Yu Hongzhi	Corporate (Note 1)	287,619,446	23.39%
	Beneficial	11,400,000	0.93%
	Subtotal:	299,019,446	24.32%
APAC Resources Limited	Corporate (Note 2)	129,436,878	10.53%
Super Grand Investments Limited ("Super Grand")	Beneficial	129,436,878	10.53%

*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), 12.5% by Ms. Ma Zheng who is the sole director of Future Advance, 27% by Zhong Nan Mining Group Limited (which in turn is 100% beneficially owned by Mr. Zhang Lei), 13% by Mr. Wu Yong Jin and the remaining 10% by Ms. Ma Yi.
2. These shares are held by Super Grand and Super Grand is a wholly-owned subsidiary of APAC Resources Limited, the issued shares of which are listed on the main board of the Stock Exchange.

(ii) *Long position in the underlying shares or debentures of the Company as at 30 June 2010:*

<b>Name</b>	<b>Type of interests</b>	<b>Description of derivatives</b>	<b>Number of underlying shares</b>	<b>Approximate percentage of interests</b>
Lehman Brothers (in liquidation)	Beneficial	Convertible Bonds (Notes 1 & 3)	184,733,481	15.02%
Great Ocean Real Estate Limited	Beneficial	Preferred Shares (Notes 2 & 3)	359,396,454	29.23%
Mr. Zhang Zheng (張征先生)	Corporate	Preferred Shares (Notes 2 & 3)	359,396,454	29.23%



*Notes:*

1. The total number of shares to which Lehman Brothers (in liquidation) 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 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 2010, the maximum number of new Shares to be issued upon full conversion of the Convertible Bonds is 184,733,481, representing 10% of the issued share capital of the Company as enlarged by the full conversion of the aforesaid convertible securities. Details of the Convertible Bonds are set out in the circular of the Company dated 5 September 2007.
2. These underlying shares are held by GORE, a company incorporated in the British Virgin Islands with limited liability. Mr. Zhang Zheng (張征) is the sole beneficial owner of GORE. The Preferred Shares issued carry conversion right to convert into ordinary shares of the Company at the initial conversion rate of 1:1 (adjusted to 1:1.2825 on 16 July 2009 and further adjusted to 1:0.1282 on 20 August 2009). The Preferred Shares will be cancelled upon the completion of the Disposal.
3. It is on 26 October 2007 and 31 October 2007, with all the conditions being fulfilled, the creation and issuance of the Preferred Shares and Convertible Bonds were completed.

Save as disclosed above, as at 30 June 2010, 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 director of the Company's subsidiary Yichang Fuliangjiang Joint Composite Limited, is the director and legal representative of 宜昌弘訊管業有限公司 (transliterated as Yichang HongXun Conduit and Calling Company Limited) ("Yichang HongXun"), which is a company incorporated in the PRC and principally engaged in selling and producing PE Pipes in the PRC. Mr. Yu Hongzhi was not a substantial shareholder of Yichang HongXun during the period under review. Save as disclosed above, as at 30 June 2010, 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.

## ***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. Chung Chin Keung ("Mr. Chung") 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 2010 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. Chung 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 2010. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the period ended 30 June 2010.


## ***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 2010, 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. Ms. Ma Zheng, the Chairman, is also the director of the Company's 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, all members of which are independent non-executive directors, to help to ensure the accountability and independence of Ms. Ma Zheng.

#### **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. Chung. Except for Mr. Chung who was appointed for a specific term of two years, the other two are not appointed for specific terms. However, they are all subject to retirement by rotation at least once every three years in accordance with the Company's Articles of Association. The Board has discussed and concluded that the current practice of appointing non-executive directors without specific terms but otherwise subject to retirement and re-election is 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 be 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 2010.

By Order of the Board  
**China Primary Resources Holdings Limited**  
**Ma Zheng**  
*Chairman*

Hong Kong, 10 August 2010

*As at the date of this report, the Board comprises Ms. MA Zheng and Mr. WONG Pui Yiu who are the executive Directors, and Mr. WAN Tze Fan Terence, Mr. LIU Weichang and Mr. CHUNG Chin Keung who are the independent non-executive Directors.*