



Interim Report  
2008



**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)



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*This report, for which the directors of CHINA PRIMARY RESOURCES HOLDINGS LIMITED (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to CHINA PRIMARY RESOURCES HOLDINGS LIMITED. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*



### ***HIGHLIGHTS***

Turnover for the six months ended 30 June 2008 was approximately HK\$50,409,000, representing an increase of approximately 118% from the corresponding period.

Loss attributable to shareholders for the same period amounted to approximately HK\$62,268,000 while it was loss of approximately HK\$5,583,000 in the corresponding period.

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2008.

## 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 2008 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<br>30 June |                       | Six months ended<br>30 June |                       |
|--|-------|-------------------------------|-----------------------|-----------------------------|-----------------------|
|  |       | 2008<br>HK\$'000              | 2007<br>HK\$'000      | 2008<br>HK\$'000            | 2007<br>HK\$'000      |
| Turnover   | 2     | 9,178                         | 17,189                | 50,409                      | 23,153                |
| Other revenue and gain   | 3     | 1,087                         | 312                   | 1,435                       | 503                   |
| Cost of inventories  |       | (9,011)                       | (16,444)              | (48,838)                    | (22,440)              |
| Staff costs, including directors' remuneration   |       | (1,590)                       | (704)                 | (47,156)                    | (1,279)               |
| Depreciation   |       | (452)                         | (197)                 | (883)                       | (707)                 |
| Amortisation on mining rights  |       | (2,018)                       | –                     | (2,018)                     | –                     |
| Amortisation on land use rights  |       | (178)                         | (165)                 | (349)                       | (316)                 |
| Other operating expenses   |       | (4,690)                       | (2,095)               | (8,708)                     | (4,423)               |
| Share of profits less losses of associates   |       | (16,898)                      | –                     | (32,590)                    | –                     |
| Excess in fair value over cost of acquired subsidiary  |       | 38,128                        | –                     | 38,128                      | –                     |
| <b>Operating profit/(loss)</b>   | 4     | <b>13,556</b>                 | <b>(2,104)</b>        | <b>(50,570)</b>             | <b>(5,509)</b>        |
| Finance costs  | 5     | (6,237)                       | (101)                 | (12,474)                    | (198)                 |
| <b>Profit/(Loss) before income tax</b>   |       | <b>7,319</b>                  | <b>(2,205)</b>        | <b>(63,044)</b>             | <b>(5,707)</b>        |
| Income tax   | 6     | –                             | –                     | –                           | –                     |
| <b>Profit/(Loss) for the period</b>  |       | <b>7,319</b>                  | <b>(2,205)</b>        | <b>(63,044)</b>             | <b>(5,707)</b>        |
| Attributable to:   |       |                               |                       |                             |                       |
| Equity holders of the Company  |       | 8,024                         | (2,150)               | (62,268)                    | (5,583)               |
| Minority interests   |       | (705)                         | (55)                  | (776)                       | (124)                 |
| <b>Profit/(Loss) for the period</b>  |       | <b>7,319</b>                  | <b>(2,205)</b>        | <b>(63,044)</b>             | <b>(5,707)</b>        |
| <b>Dividend</b>  | 7     | <b>–</b>                      | <b>–</b>              | <b>–</b>                    | <b>–</b>              |
| <b>Earnings/(Loss) per share for profit/(loss) attributable to the equity holders of the Company during the period</b> | 8     |                               |                       |                             |                       |
| Basic  |       | <b>HK0.10 cents</b>           | <b>(HK0.03 cents)</b> | <b>(HK0.80cents)</b>        | <b>(HK0.08 cents)</b> |
| Diluted  |       | <b>HK0.08 cents</b>           | <b>N/A</b>            | <b>N/A</b>                  | <b>N/A</b>            |



## CONDENSED CONSOLIDATED BALANCE SHEET

|   |              | <b>30 June<br/>2008</b>               | 31 December<br>2007                 |
|---|--------------|---------------------------------------|-------------------------------------|
|   | <i>Notes</i> | <i>HK\$'000</i><br><b>(Unaudited)</b> | <i>HK\$'000</i><br><b>(Audited)</b> |
| <b>ASSETS AND LIABILITIES</b>                               |              |                                       |                                     |
| <b>Non-current assets</b>                                   |              |                                       |                                     |
| Property, plant and equipment                               |              | 28,735                                | 28,226                              |
| Land use rights   |              | 31,954                                | 30,272                              |
| Mining rights   |              | 438,270                               | –                                   |
| Interests in associates                                     |              | 2,248,429                             | 2,133,361                           |
| Deposits paid   |              | 10,600                                | 15,961                              |
|   |              | <u>2,757,988</u>                      | <u>2,207,820</u>                    |
| <b>Current assets</b>                                       |              |                                       |                                     |
| Inventories   |              | 8,010                                 | 438                                 |
| Trade receivables   | 10           | 29,038                                | –                                   |
| Other receivables, deposits and prepayments                 |              | 50,589                                | 13,634                              |
| Current tax refundable                                      |              | 678                                   | 42                                  |
| Cash and cash equivalents                                   |              | 194,674                               | 294,063                             |
|   |              | <u>282,989</u>                        | <u>308,177</u>                      |
| <b>Current liabilities</b>                                  |              |                                       |                                     |
| Trade payables  | 11           | 2,370                                 | 68                                  |
| Other payables and accruals                                 |              | 445                                   | 2,038                               |
|   |              | <u>2,815</u>                          | <u>2,106</u>                        |
| <b>Net current assets</b>                                   |              | <u>280,174</u>                        | <u>306,071</u>                      |
| <b>Total assets less current liabilities</b>                |              | <u>3,038,162</u>                      | <u>2,513,891</u>                    |
| <b>Non-current liabilities</b>                              |              |                                       |                                     |
| Convertible bonds   | 12           | 228,688                               | 226,107                             |
| Deferred tax liabilities                                    |              | 262,539                               | 152,211                             |
| Convertible preferred shares                                | 13           | 53,374                                | 50,992                              |
|   |              | <u>544,601</u>                        | <u>429,310</u>                      |
| <b>Net assets</b>   |              | <u>2,493,561</u>                      | <u>2,084,581</u>                    |
| <b>EQUITY</b>   |              |                                       |                                     |
| <b>Equity attributable to equity holders of the Company</b> |              |                                       |                                     |
| Share capital   | 14           | 10,247                                | 9,344                               |
| Reserves  |              | 2,378,085                             | 2,071,534                           |
|   |              | <u>2,388,332</u>                      | <u>2,080,878</u>                    |
| <b>Minority interests</b>                                   |              | <u>105,229</u>                        | <u>3,703</u>                        |
| <b>Total equity</b>   |              | <u>2,493,561</u>                      | <u>2,084,581</u>                    |

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to equity holders of the Company

|   | Share capital | Share premium | Convertible bonds reserve | Employee compensation reserve | Statutory surplus reserve | Convertible preferred share reserve | Retained profits/(Accumulated Losses) | Warrants reserve | Exchange translation reserve | Minority interests | Total equity |
|---|---------------|---------------|---------------------------|-------------------------------|---------------------------|-------------------------------------|---------------------------------------|------------------|------------------------------|--------------------|--------------|
|   | HKS'000       | HKS'000       | HKS'000                   | HKS'000                       | HKS'000                   | HKS'000                             | HKS'000                               | HKS'000          | HKS'000                      | HKS'000            | HKS'000      |
| 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   | 8,533         | 170,634       | 1,063                     | 1,531                         | 5,118                     | -                                   | (36,390)                              | 8,092            | 8,934                        | 4,527              | 171,842      |
| Balance at 1 January 2008   | 9,344         | 188,251       | 18,985                    | -                             | 5,110                     | 753,639                             | 1,084,976                             | 7,619            | 12,954                       | 3,703              | 2,084,581    |
| Currency translation (Net income recognised directly in equity)           | -             | -             | -                         | -                             | -                         | -                                   | -                                     | -                | 166,684                      | 770                | 167,454      |
| Loss for the six months ended 30 June 2008                                | -             | -             | -                         | -                             | -                         | -                                   | (62,268)                              | -                | -                            | (776)              | (63,044)     |
| Total recognised income and expense for the six months ended 30 June 2008 | -             | -             | -                         | -                             | -                         | -                                   | (62,268)                              | -                | 166,684                      | (6)                | 104,410      |
| Acquisition of equity interest of a subsidiary                            | -             | -             | -                         | -                             | -                         | -                                   | -                                     | -                | -                            | 101,532            | 101,532      |
| Issuance of new shares  | 903           | 157,938       | -                         | -                             | -                         | -                                   | -                                     | -                | -                            | -                  | 158,841      |
| Employee share-based compensation   | -             | -             | -                         | 44,197                        | -                         | -                                   | -                                     | -                | -                            | -                  | 44,197       |
| Balance at 30 June 2008   | 10,247        | 346,189       | 18,985                    | 44,197                        | 5,110                     | 753,639                             | 1,022,708                             | 7,619            | 179,638                      | 105,229            | 2,493,561    |



**UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

|  | <b>Six months<br/>ended<br/>30 June<br/>2008<br/>HK\$'000</b> | <b>Six months<br/>ended<br/>30 June<br/>2007<br/>HK\$'000</b> |
|--|---|---|
| <b>Net cash inflow/(outflow) from operating activities</b>   | <b>(81,492)</b>   | 1,610   |
| <b>Net cash outflow from investing activities</b>            | <b>(24,235)</b>   | (933)   |
| <b>Net cash inflow/(outflow) before financing activities</b> | <b>(105,727)</b>  | 677   |
| <b>Net cash inflow/(outflow) from financing activities</b>   | <b>(7,511)</b>  | 2,915   |
| <b>Net increase/(decrease) in cash and cash equivalents</b>  | <b>(113,238)</b>  | 3,592   |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>      | <b>294,063</b>  | 88,204  |
| <b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>               | <b>13,849</b>   | 3,005   |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>            | <b>194,674</b>  | 94,801  |
| <b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>     |   |   |
| Cash at bank and in hand                                     | 194,674   | 94,801  |
|  | <b>194,674</b>  | <b>94,801</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 (“HKICPA”). 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 2008. 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 adopted in the preparation of the Group’s annual financial statements for the year ended 31 December 2007.

In this reporting period, the Group had applied for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”) and HKAS issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2008. 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.





## 2. Turnover

Turnover represents the sales value of goods supplied/services provided to customers and is analysed as follows:

|                              | Three months<br>ended 30 June |                 | Six months<br>ended 30 June |                 |
|------------------------------|-------------------------------|-----------------|-----------------------------|-----------------|
|                              | 2008                          | 2007            | 2008                        | 2007            |
|                              | <i>HK\$'000</i>               | <i>HK\$'000</i> | <i>HK\$'000</i>             | <i>HK\$'000</i> |
|                              | (Unaudited)                   | (Unaudited)     | (Unaudited)                 | (Unaudited)     |
| Sales of composite materials | 6,251                         | 15,702          | 38,863                      | 20,539          |
| Sales of PE/FRP Pipes        | 2,927                         | 1,487           | 11,546                      | 2,614           |
|                              | <hr/>                         | <hr/>           | <hr/>                       | <hr/>           |
| Sales of goods               | 9,178                         | 17,189          | 50,409                      | 23,153          |
|                              | <hr/>                         | <hr/>           | <hr/>                       | <hr/>           |
| <b>Total</b>                 | <b>9,178</b>                  | <b>17,189</b>   | <b>50,409</b>               | <b>23,153</b>   |
|                              | <hr/> <hr/>                   | <hr/> <hr/>     | <hr/> <hr/>                 | <hr/> <hr/>     |

## 3. Other revenue and gain

|                      | Three months<br>ended 30 June |                 | Six months<br>ended 30 June |                 |
|----------------------|-------------------------------|-----------------|-----------------------------|-----------------|
|                      | 2008                          | 2007            | 2008                        | 2007            |
|                      | <i>HK\$'000</i>               | <i>HK\$'000</i> | <i>HK\$'000</i>             | <i>HK\$'000</i> |
|                      | (Unaudited)                   | (Unaudited)     | (Unaudited)                 | (Unaudited)     |
| Bank interest income | 1,085                         | 339             | 1,430                       | 481             |
| Sundry income        | 2                             | (27)            | 5                           | 22              |
|                      | <hr/>                         | <hr/>           | <hr/>                       | <hr/>           |
|                      | 1,087                         | 312             | 1,435                       | 503             |
|                      | <hr/> <hr/>                   | <hr/> <hr/>     | <hr/> <hr/>                 | <hr/> <hr/>     |



#### 4. Operating profit/(loss)

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

|   | Three months<br>ended 30 June   |                                 | Six months<br>ended 30 June     |                                 |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|   | 2008<br>HK\$'000<br>(Unaudited) | 2007<br>HK\$'000<br>(Unaudited) | 2008<br>HK\$'000<br>(Unaudited) | 2007<br>HK\$'000<br>(Unaudited) |
| Interest income                                       | (1,085)                         | (339)                           | (1,430)                         | (481)                           |
| Cost of inventories<br>recognised as expenses         | 9,011                           | 16,444                          | 48,838                          | 22,440                          |
| Operating lease charges on<br>land and buildings      | 629                             | 172                             | 1,239                           | 304                             |
| Depreciation (Note 1)                                 | 765                             | 450                             | 1,495                           | 1,260                           |
| Amortisation on mining right                          | 2,018                           | –                               | 2,018                           | –                               |
| Amortisation on land use rights                       | 178                             | 165                             | 349                             | 316                             |
| Staff costs, including directors'<br>emoluments       | 1,590                           | 704                             | 47,156                          | 1,279                           |
| Contribution to retirement<br>benefit scheme (Note 2) | 19                              | 10                              | 35                              | 22                              |
| Net exchange loss                                     | –                               | 1                               | –                               | 1                               |
|   | <b>=====</b>                    | <b>=====</b>                    | <b>=====</b>                    | <b>=====</b>                    |

#### Notes:

1. Depreciation expense of approximately HK\$313,000 and HK\$612,000 for the three months and six months ended 30 June 2008 respectively (three months and six months ended 30 June 2007: HK\$253,000 and HK\$553,000) 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

|  | Three months<br>ended 30 June |             | Six months<br>ended 30 June |             |
|--|-------------------------------|-------------|-----------------------------|-------------|
|  | 2008                          | 2007        | 2008                        | 2007        |
|  | HK\$'000                      | HK\$'000    | HK\$'000                    | HK\$'000    |
|  | (Unaudited)                   | (Unaudited) | (Unaudited)                 | (Unaudited) |
| Interest charges on convertible<br>bonds wholly repayable<br>within five years | 5,046                         | 101         | 10,092                      | 198         |
| Imputed interest on convertible<br>preferred shares                            | 1,191                         | –           | 2,382                       | –           |
|  | <u>6,237</u>                  | <u>101</u>  | <u>12,474</u>               | <u>198</u>  |

## 6. Income tax

No provision for profits tax in the Cayman Islands, the British Virgin Islands or Hong Kong has been provided as the Group did not generate any assessable profits in those jurisdictions during the three months and six months ended 30 June 2008 (three months and six months ended 30 June 2007: 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 2008 (three months and six months ended 30 June 2007: Nil).

The Group has tax losses arising in Hong Kong of approximately HK\$52,145,000 (as at 30 June 2007: HK\$48,994,000) and PRC of approximately HK\$9,009,000 (as at 30 June 2007: HK\$2,323,000) 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 years.

## 7. Dividends

The Directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).



## 8. Earnings/(Loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) for the three months and six months ended 30 June 2008 attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the three months and six months ended 30 June 2008.

The calculation of diluted earnings/(loss) per share is based on the profit/(loss) for the three months and six months ended 30 June 2008 attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible bonds and convertible preferred shares. 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 2008, as used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

| Three months<br>ended 30 June |             | Six months<br>ended 30 June |             |
|-------------------------------|-------------|-----------------------------|-------------|
| 2008                          | 2007        | 2008                        | 2007        |
| HK\$'000                      | HK\$'000    | HK\$'000                    | HK\$'000    |
| (Unaudited)                   | (Unaudited) | (Unaudited)                 | (Unaudited) |

### Earnings/(Loss)

Profit/(loss) for the period  
attributable to the equity  
holders of the Company  
for calculation of basic  
earnings/(loss) per share

|       |         |          |         |
|-------|---------|----------|---------|
| 8,024 | (2,150) | (62,268) | (5,583) |
|-------|---------|----------|---------|

Interest on convertible bonds  
(Note)

|     |  |  |  |
|-----|--|--|--|
| 104 |  |  |  |
|-----|--|--|--|

Interest on convertible  
preferred shares

|       |  |  |  |
|-------|--|--|--|
| 1,190 |  |  |  |
|-------|--|--|--|

Profit for the period  
attributable to the equity  
holders of the Company  
for calculation of diluted  
earnings per share

|       |  |  |  |
|-------|--|--|--|
| 9,318 |  |  |  |
|-------|--|--|--|



| Three months<br>ended 30 June |      | Six months<br>ended 30 June |      |
|-------------------------------|------|-----------------------------|------|
| 2008                          | 2007 | 2008                        | 2007 |
| '000                          | '000 | '000                        | '000 |

### Number of shares

|  |                   |           |                  |           |
|--|-------------------|-----------|------------------|-----------|
| Weighted average number of ordinary shares for the purposes of calculating basic earnings/(loss) per share | <b>8,022,806</b>  | 6,818,168 | <b>7,749,080</b> | 6,816,726 |
| Effect of dilutive potential ordinary shares:  |                   |           |                  |           |
| Warrants   | –                 |           |                  |           |
| Share options  | –                 |           |                  |           |
| Convertible bonds ( <i>Note</i> )  | <b>313,503</b>    |           |                  |           |
| Convertible preferred shares   | <b>2,802,235</b>  |           |                  |           |
| Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share      | <b>11,138,544</b> |           |                  |           |

*Note:* Warrants, share options and convertible bonds issued to Lehman Brothers that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are anti-dilutive for the three months ended 30 June 2008.

Diluted loss per share for the six months ended 30 June 2008 has not been disclosed as the warrants, share options, convertible bonds and preferred convertible shares outstanding during the period had an anti-dilutive effect on the basic loss per share for the period.

## 9. Segment information

### *Business segment*

|   | Sales of            |             | Sales of PE/FRP pipes |             | Mine Resources<br>Development and<br>Assets Management |             | Consolidated  |             |
|---|---------------------|-------------|-----------------------|-------------|--|-------------|---------------|-------------|
|   | Composite Materials |             | Six months            |             | Six months   |             | Six months    |             |
|   | Six months          |             | Six months            |             | Six months   |             | Six months    |             |
|   | ended 30 June       |             | ended 30 June         |             | ended 30 June  |             | ended 30 June |             |
|   | 2008                | 2007        | 2008                  | 2007        | 2008   | 2007        | 2008          | 2007        |
|   | 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                       | 38,863              | 20,539      | 11,546                | 2,614       | -  | -           | 50,409        | 23,153      |
| Cost of goods sold                                    | (37,889)            | (19,429)    | (10,949)              | (3,011)     | -  | -           | (48,838)      | (22,440)    |
| Other operating expenses                              | (1,828)             | (1,575)     | (542)                 | (200)       | (2,018)  | -           | (4,388)       | (1,775)     |
| Segment results                                       | (854)               | (465)       | 55                    | (597)       | (2,018)  | -           | (2,817)       | (1,062)     |
| Other operating income                                |                     |             |                       |             |  |             | 1,435         | 503         |
| Finance costs   |                     |             |                       |             |  |             | (12,474)      | (198)       |
| Unallocated expenses                                  |                     |             |                       |             |  |             | (54,726)      | (4,950)     |
| Excess in fair value over cost of acquired subsidiary |                     |             |                       |             |  |             | 38,128        | -           |
| Share of profits less losses of associates            |                     |             |                       |             |  |             | (32,590)      | -           |
| Loss before income tax                                |                     |             |                       |             |  |             | (63,044)      | (5,707)     |
| Income tax  |                     |             |                       |             |  |             | -             | -           |
| Loss for the period                                   |                     |             |                       |             |  |             | (63,044)      | (5,707)     |



**10. Trade receivables**

The aging analysis of the gross trade receivable is as follows:

|                | <b>30 June<br/>2008</b> | 31 December<br>2007 |
|----------------|-------------------------|---------------------|
|                | <i>HK\$'000</i>         | <i>HK\$'000</i>     |
|                | <b>(Unaudited)</b>      | <b>(Audited)</b>    |
| Within 30 days | <b>29,038</b>           | –                   |
| 31 – 60 days   | –                       | –                   |
|                | <hr/>                   | <hr/>               |
|                | <b>29,038</b>           | –                   |
|                | <hr/> <hr/>             | <hr/> <hr/>         |

**11. Trade payables**

|                | <b>30 June<br/>2008</b> | 31 December<br>2007 |
|----------------|-------------------------|---------------------|
|                | <i>HK\$'000</i>         | <i>HK\$'000</i>     |
|                | <b>(Unaudited)</b>      | <b>(Audited)</b>    |
| Within 30 days | <b>2,370</b>            | 68                  |
| 31 – 60 days   | –                       | –                   |
| 61 – 90 days   | –                       | –                   |
|                | <hr/>                   | <hr/>               |
|                | <b>2,370</b>            | 68                  |
|                | <hr/> <hr/>             | <hr/> <hr/>         |

## 12. Convertible bonds

As at 30 June 2008 the Group and the Company issued convertible bonds as below:

- (i) The 4.5% convertible bonds were issued to Lehman Brothers Commercial Corporation Asia Limited (“Lehman Brothers”) on 31 October 2007 with nominal value of HK\$246,250,000 and 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 2008, the convertible bonds can be converted into 1,402,115,974 ordinary shares of the Company. Coupon interest of 4.5% will be paid semi-annually in arrears until the settlement date.

Unless previously redeemed, repurchased and cancelled or converted, any outstanding convertible bonds shall be redeemed at the repayment premium, plus any accrued and unpaid interest, on the third anniversary of the issue date of the convertible bonds. The repayment premium shall mean the premium payable on repayment of the convertible bonds at maturity date which amounts to 131.5% of the outstanding principal amount of the convertible bonds at the maturity date then due and payable unless during 60% of the total trading days during the term of the convertible bonds, the closing price of the ordinary shares of the Company is above HK\$0.2, or any part of the convertible bonds have been converted into conversion shares, in which case the repayment premium is 100% of any outstanding principal at the maturity date.

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

Interest rate on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 9.11% per annum.

- (ii) The 1% convertible bonds were issued to Future Advance Holdings Limited (“Future Advance”), a substantial shareholder of the Company, on 27 April 2006 with nominal value of HK\$6,270,065.60 and maturity date on 26 April 2009. The 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 the 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 ordinary shares of the Company.





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

Interest rate on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 7.474% per annum.

The fair value of the liability component included in the above 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 equity, net of deferred taxes.

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

|  | <b>30 June<br/>2008</b> | 31 December<br>2007 |
|--|-------------------------|---------------------|
|  | <b>HK\$'000</b>         | HK\$'000            |
|  | <b>(Unaudited)</b>      | (Audited)           |
| Nominal value of convertible bonds                               | <b>252,520</b>          | 252,520             |
| Equity component   | <b>(23,226)</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>222,207</b>          | 222,207             |
| Accumulated interest expenses recognised                         | <b>14,054</b>           | 3,962               |
| Accumulated interest paid  | <b>(7,573)</b>          | (62)                |
|  | <hr/>                   | <hr/>               |
| Liability component at end of period/year                        | <b>228,688</b>          | 226,107             |
|  | <hr/> <hr/>             | <hr/> <hr/>         |



### 13. Convertible preferred shares

#### *Group and Company*

On 26 October 2007, the authorised Convertible Preferred Shares (“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. The Company has allotted and issued 2,802,235,294 CPS at HK\$0.34 per CPS. The CPS recognised in the condensed consolidated balance sheet is calculated as follows:

|   | <b>30 June<br/>2008</b>        | 31 December<br>2007          |
|---|--------------------------------|------------------------------|
| Number of CPS                                 | <b>2,802,235,294</b>           | 2,802,235,294                |
|   | <i>HK\$'000</i><br>(Unaudited) | <i>HK\$'000</i><br>(Audited) |
| Nominal value of convertible preferred shares | <b>952,760</b>                 | 952,760                      |
| Equity component                              | <b>(902,562)</b>               | (902,562)                    |
| Liability component on initial recognition    | <b>50,198</b>                  | 50,198                       |
| Accumulated interest expenses recognised      | <b>3,176</b>                   | 794                          |
| Liability component at end of period/year     | <b>53,374</b>                  | 50,992                       |

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, the CPS into ordinary shares of HK\$0.00125 each at the initial conversion rate of 1:1 (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 Zi Yuan Holdings Limited (“Xin Shougang”) to the Group (the “Dividends”) reaches HK\$485,500,000 or the Group has disposed of its interest in Xin Shougang at the disposal consideration of more than HK\$485,500,000 in aggregate without incurring any losses on the disposal or the total of the cumulative Dividends and the disposal consideration is more than HK\$485,500,000 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).

#### 14. Share capital

|                                     | Number of shares<br>‘000 | Nominal value<br>HK\$‘000 |
|-------------------------------------|--------------------------|---------------------------|
| <i>Authorised:</i>                  |                          |                           |
| At beginning and end of period      |                          |                           |
| Ordinary shares of HK\$0.00125 each | 96,000,000               | 120,000                   |
|                                     | <u>96,000,000</u>        | <u>120,000</u>            |
| <i>Issued and fully paid:</i>       |                          |                           |
| At beginning of period              |                          |                           |
| Ordinary shares of HK\$0.00125 each | 7,475,355                | 9,344                     |
| Issue of shares                     | 722,000                  | 903                       |
|                                     | <u>8,197,355</u>         | <u>10,247</u>             |
| At end of period                    |                          |                           |
| Ordinary shares of HK\$0.00125 each | 8,197,355                | 10,247                    |
|                                     | <u>8,197,355</u>         | <u>10,247</u>             |



## 15. Commitments

### *Commitment under operating leases*

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

As at 30 June 2008, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings fall due as follows:

|                              | <b>30 June<br/>2008</b> | 31 December<br>2007 |
|------------------------------|-------------------------|---------------------|
|                              | <b>HK\$'000</b>         | HK\$'000            |
|                              | <b>(Unaudited)</b>      | (Audited)           |
| Within one year              | 724                     | 721                 |
| In the second to fifth years | 570                     | 947                 |
|                              | <u>1,294</u>            | <u>1,668</u>        |

Save as aforesaid, the Group did not have any other significant commitments as at 30 June 2008 (30 June 2007: Nil).

## 16. Capital Commitment

### **Group**

|   | <b>30 June<br/>2008</b> | 31 December<br>2007 |
|---|-------------------------|---------------------|
|   | <b>HK\$'000</b>         | HK\$'000            |
|   | <b>(Unaudited)</b>      | (Audited)           |
| Proposed investment in a venture<br>contracted but not provided for | –                       | 182,959             |
|   | <u>–</u>                | <u>182,959</u>      |

Save as aforesaid, the Group did not have any other significant commitments as at 30 June 2008 (30 June 2007: Nil).



## **MANAGEMENT DISCUSSION AND ANALYSIS**

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


During the period under review, the Group continued to engage in (i) 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”) and (ii) mining businesses and property development through its interests in subsidiary and interests in associates, and operates primarily in the markets of PRC.

As stated in our 2007 annual report, our focus will be development and integration of the mining business. On 23 April 2008, the acquisition of the mining company in Mongolia was completed. The management is now seeking professional advice on how to initiate the operation of this project as soon as practicable. Other than that, as reported by the management in our associated company in Yichang that the operation of the iron mine project was running smoothly.

As at 30 June 2008, the Group continued in a position to develop the abovementioned new production line and mining business while keeping abreast of its core business.

### **Financial review**

Turnover was approximately HK\$50,409,000 for the period under review, which represented an increase of 118% while compared with that of the corresponding period. The increase in sale was mainly due to the increase in sale of PE Pipes, which was a new business to the Group in the first quarter 2007. The unaudited loss before income tax for the period under review was approximately HK\$63,044,000 while the loss before income tax for corresponding period was approximately HK\$5,707,000. The loss attributable to shareholders was approximately HK\$62,268,000. The loss for the period under review was mainly attributable to (i) the share of the loss of the associated company of approximately HK\$32,590,000 and (ii) non-recurring expenses of approximately HK\$44,197,000 which was the cost of 681,000,000 share options granted to the directors and employees of the Group on 8 January 2008. 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. An excess in fair value over cost of acquired subsidiary of approximately HK\$38,128,000 was recorded in the period under review in relation to the mining company in Mongolia.

### **Liquidity and financial resources**

With the funds raised previously and the internal resources of the Company, as at 30 June 2008, the Directors anticipate that the Group has adequate financial resources to meet its ongoing operations and future development.

### **Employee information**

As at 30 June 2008, the Group has 5 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 but excluding cost of share option granted, for the six months under review amounted to approximately HK\$2,959,000. 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. There has been no change in the capital structure of the Company since the Company's listing on that date except for, on 31 October 2007, the creation and issuance of the non-listed preferred shares ("Preferred Shares") was completed and the Preferred Shares are held by Great Ocean Real Estate Limited ("GORE"). Based on the initial conversion rate of 1:1, GORE will be entitled to convert in full the Preferred Shares into 2,802,235,294 Shares of the Company. Details of which have been set out in the announcement dated 31 October 2007.

### **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**

On 17 March 2008, the Company announced that on 11 March 2008, the Company and China Review Holdings (Group) Limited (“the Vendor”) entered into an agreement pursuant to which the Company conditionally agreed to purchase and the Vendor conditionally agreed to sell the 100% of the issued share capital of Zhong Ping Resources Holdings Limited (“Zhong Ping”) (the “Acquisition”), which, through ARIA LLC, its non wholly-owned subsidiary incorporated in Mongolia holds the majority interest of the mining right in respect of the project located at Mungun-Undur, Khentii Province, Mongolia, for a total consideration of HK\$198,920,000. The consideration of which was satisfied as to (i) HK\$40,080,000 by cash and (ii) HK\$158,840,000 by the issue of the Shares of the Company. The Acquisition constitutes a discloseable transaction of the Company under Chapter 19 of the GEM Listing Rules. Details of which are set out in the circular dated 7 April 2008.

Save as disclosed above, there were no material acquisition or disposal of subsidiaries and affiliated companies during the six months ended 30 June 2008. The Company has no other future plans for material investments.

### **Segmental information**

Details have been set out in note 9 under “Notes to the condensed consolidated financial statements” and further elaborated under “Business review and future outlook” of this section.

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### **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 2007: Nil).

### **Gearing ratio**

As at 30 June 2008, the Group had cash and cash equivalents of approximately HK\$194,674,000 in its current assets while its current liabilities stood at approximately HK\$2,815,000, and the Group had long-term loan of approximately HK\$282,062,000 and its shareholders’ funds amounted to approximately HK\$2,388,332,000. In this regard, the Group had a net cash position and its gearing ratio should be approximately 11.8% (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 2008, 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:

- (i) *Long position in the ordinary shares of HK\$0.00125 each in the Company as at 30 June 2008:*

| Name of director | Type of interests | Number of ordinary shares held |                                     |
|------------------|-------------------|--------------------------------|-------------------------------------|
|                  |                   | Number of ordinary shares      | Approximate percentage of interests |
| Ms. Ma Zheng     | Beneficial        | 54,000,000                     | 0.66%                               |

*Note:*

Ms. Ma Zheng is holding 12.5% of the equity interest of Future Advance Holdings Limited (“Future Advance”) and Future Advance beneficially owned 31.43% of the equity interest of the Company. In addition, Ms. Ma Zheng is an executive director of the Company and the sole director of Future Advance.







(ii) Long position in the underlying shares or debentures of the Company as at 30 June 2008:

| Name of directors                                | Type of interests | Description of securities | Number of underlying shares | Approximate percentage of interests |
|--|-------------------|---------------------------|-----------------------------|-------------------------------------|
| Ms. Ma Zheng                                     | Beneficial        | Share Option<br>(Note)    | 20,000,000                  | 0.24%                               |
| Mr. Chiu Winerthan<br>(resigned on 11 July 2008) | Beneficial        | Share Option<br>(Note)    | 10,000,000                  | 0.12%                               |
| Mr. Liu Weichang                                 | Beneficial        | Share Option<br>(Note)    | 3,000,000                   | 0.04%                               |
| Mr. Wan Tze Fan<br>Terence                       | Beneficial        | Share Option<br>(Note)    | 3,000,000                   | 0.04%                               |


*Note:*

On 8 January 2008, Ms. Ma Zheng, the sole director of Future Advance and an executive Director, has been granted 20,000,000 share options 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 Share.

On 8 January 2008, Mr. Chiu Winerthan, an ex-executive Director (resigned on 11 July 2008), has also been granted 10,000,000 share options under the existing share option scheme adopted in compliance with Chapter 23 of the GEM Listing Rules which carry rights to subscribe for 10,000,000 new Shares at the current exercise price of HK\$0.22 per new Share. Such share option lapsed upon his resignation.

On 8 January 2008, Mr. Liu Weichang, an independent non-executive Director, has also been granted 3,000,000 share options 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 Share.

On 8 January 2008, Mr. Wan Tze Fan Terence, an independent non-executive Director, has also been granted 3,000,000 share options 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 Share.



Save as disclosed above, as at 30 June 2008, 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. For further details of these, please refer to the announcement dated 17 March 2004. As at 30 June 2008, 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 2008, the number of shares in respect of which options had been granted under the Post-Scheme was 681 million (six months ended 30 June 2007: 176 million), representing 8.3% (six months ended 30 June 2007: 2.58%) of the shares of the Company in issue. 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, 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 2008 were as follows:

| Grantees                           | Date granted   | Balance              | Granted           | Exercised         | Lapsed            | Balance            | Period during which the options are exercisable | Exercise price per share |
|------------------------------------|----------------|----------------------|-------------------|-------------------|-------------------|--------------------|---|--------------------------|
|                                    |                | as at 1 January 2008 | during the period | during the period | during the period | as at 30 June 2008 |   |                          |
|                                    |                | '000                 | '000              | '000              | '000              | '000               |   |                          |
| Ms. Ma Zheng (Director)            | 8 January 2008 | -                    | 20,000            | -                 | -                 | 20,000             | 8 July 2008 to 27 November 2011                 | HK\$0.22                 |
| Mr. Chiu Winethan (Ex-Director)    | 8 January 2008 | -                    | 10,000            | -                 | -                 | 10,000             | 8 July 2008 to 27 November 2011                 | HK\$0.22                 |
| Mr. Wan Tze Fan Terence (Director) | 8 January 2008 | -                    | 3,000             | -                 | -                 | 3,000              | 8 July 2008 to 27 November 2011                 | HK\$0.22                 |
| Mr. Liu Weichang (Director)        | 8 January 2008 | -                    | 3,000             | -                 | -                 | 3,000              | 8 July 2008 to 27 November 2011                 | HK\$0.22                 |
| Employees                          | 8 January 2008 | -                    | 645,000           | -                 | (10,000)          | 635,000            | 8 July 2008 to 27 November 2011                 | HK\$0.22                 |
|                                    |                | -                    | 681,000           | -                 | (10,000)          | 671,000            |   |                          |
|                                    |                | -                    | 681,000           | -                 | (10,000)          | 671,000            |   |                          |

### ***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 2008, 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:



(i) Long position in the ordinary shares of HK\$0.00125 each in the Company as at 30 June 2008:

| 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             | 31.43%   |
| China Zong Heng Holdings Limited                | Corporate<br>(Note 1)  | 2,576,194,460             | 31.43%   |
| Mr. Yu Hongzhi                                  | Corporate<br>(Note 1)  | 2,576,194,460             | 31.43%   |
|   | Beneficial             | 76,000,000                | 0.93%  |
|   | Subtotal:              | 2,652,194,460             | 32.36%   |
| APAC Resources Limited                          | Corporate              | 862,912,520               | 10.53%   |
| Super Grand Investments Limited (“Super Grand”) | Beneficial<br>(Note 2) | 862,912,520               | 10.53%   |
| China Review Holdings (Group) Limited           | Beneficial             | 722,000,000               | 8.81%  |
| 胡玉女士 (Ms. Hu Yu) <sup>#</sup>                   | Beneficial             | 473,088,000               | 5.77%  |

*Notes:*

- 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, and 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.
- 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 2008:

| Name                             | Type of interests | Description of derivatives         | Number of underlying shares | Approximate percentage of interests |
|----------------------------------|-------------------|------------------------------------|-----------------------------|-------------------------------------|
| Future Advance Holdings Limited  | Beneficial        | Convertible bond<br>(Note 1)       | 313,503,280                 | 3.82%                               |
| China Zong Heng Holdings Limited | Corporate         | Convertible bond<br>(Note 1)       | 313,503,280                 | 3.82%                               |
| Lehman Brothers Holdings Inc.    | Beneficial        | Convertible Bonds<br>(Notes 2 & 4) | 1,402,115,974               | 17.10%                              |
| Great Ocean Real Estate Limited  | Beneficial        | Preferred Shares<br>(Notes 3 & 4)  | 2,802,235,294               | 34.18%                              |
| Mr. Zhang Zheng<br>(張征先生)        | Corporate         | Preferred Shares<br>(Notes 3 & 4)  | 2,802,235,294               | 34.18%                              |

Notes:

1. 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 2008.



2. The underlying shares are held by Lehman Brothers Commercial Corporation Asia Limited (“Lehman Brothers”), the ultimate beneficial owner of which 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 section (i) 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 2008, the maximum number of new shares to be issued upon full conversion of the Convertible Bonds is 1,402,115,974 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 the circular dated 5 September 2007.
3. These underlying shares are held by Great Ocean Real Estate Limited (“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 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.
4. 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 completed respectively.

Save as disclosed above, as at 30 June 2008, 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 of Yichang Fulianjiang Joint Composite Limited (宜昌富連江複合材料有限公司), is the director and legal representative of 宜昌弘訊管業有限公司 ("Yichang HongXun Conduit and Calling Company Limited")#, 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 2008, 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 2008.

## **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 2008 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 2008. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the period ended 30 June 2008.

### **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 2008, 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, which all members 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 were 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 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 2008.

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

Hong Kong, 12 August 2008

# *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 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.*