



中國基礎資源控股有限公司

CHINA PRIMARY RESOURCES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8117)



Interim Report 2009

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HIGHLIGHTS

Turnover for the six months ended 30 June 2009 was approximately HK\$9,609,000, representing a decrease of approximately 81% from the corresponding period.

Loss attributable to shareholders for the same period amounted to approximately HK\$33,982,000 while it was profit of approximately HK\$17,714,000 (restated) in the corresponding period.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2009.

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 2009 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	
		2009	2008	2009	2008
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(restated)		(restated)
Turnover	3	3,879	9,178	9,609	50,409
Cost of inventories sold		(3,377)	(9,011)	(8,841)	(48,838)
Gross profit		502	167	768	1,571
Other income and gain	4	8	1,087	44	1,435
Administrative and other operating expenses		(7,573)	(8,928)	(15,204)	(59,114)
Share of (losses), net of associates		(1,553)	(16,898)	(10,282)	(32,590)
Excess of the Group's share of the net fair value of the interests in subsidiaries acquired over the cost of acquisition		–	118,110	–	118,110
Finance costs	6	(6,197)	(6,237)	(12,641)	(12,474)
(Loss)/Profit before income tax		(14,813)	87,301	(37,315)	16,938
Income tax credit	7	1,108	–	2,216	–
(Loss)/Profit for the period		(13,705)	87,301	(35,099)	16,938
Attributable to:					
Equity holders of the Company		(13,158)	88,006	(33,982)	17,714
Minority interests		(547)	(705)	(1,117)	(776)
		(13,705)	87,301	(35,099)	16,938
Dividend	8	–	–	–	–
(Loss)/earnings per share	9				
Basic		(HK0.16 cents)	HK1.10 cents	(HK0.41 cents)	HK0.23 cents
Diluted		N/A	HK0.75 cents	N/A	HK0.19 cents

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**

	For the three months ended 30 June		For the six months ended 30 June	
	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i> (restated)	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i> (restated)
(Loss)/Profit for the period	(13,705)	87,301	(35,099)	16,938
Other comprehensive income:				
Exchange difference arising on translation of foreign operations	49	7,138	783	19,796
Exchange difference arising on Share of associates	16,587	52,079	18,106	147,658
Total comprehensive income for the period	2,931	146,518	(16,210)	184,392
Attributable to:				
Equity holders of the Company	3,402	146,534	(15,272)	184,398
Minority interest	(471)	(16)	(938)	(6)
	2,931	146,518	(16,210)	184,392

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2009	31 December 2008
	<i>Notes</i>	HK\$'000 (Unaudited)	HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		62,499	62,808
Land use rights		31,176	31,477
Mining rights		210,340	214,057
Interests in associates		–	1,112,008
Available-for-sale financial asset		1,119,832	–
Deposits paid		83,558	91,462
		<hr/> 1,507,405	<hr/> 1,511,812
Current assets			
Inventories		17,576	9,092
Trade receivables	<i>11</i>	26,818	45,081
Other receivables, deposits and prepayments		45,261	12,841
Tax recoverable		45	45
Cash and cash equivalents		66,738	99,361
		<hr/> 156,438	<hr/> 166,420
Current liabilities			
Trade payables	<i>12</i>	5,915	3,178
Other payables and accruals		9,858	14,596
Convertible bonds		–	6,228
		<hr/> 15,773	<hr/> 24,002
Net current assets		<hr/> 140,665	<hr/> 142,418
Total assets less current liabilities		<hr/> 1,648,070	<hr/> 1,654,230

		30 June 2009	31 December 2008
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Non-current liabilities			
Convertible bonds	<i>13</i>	242,437	232,552
Deferred tax liabilities		180,601	182,818
Convertible preferred shares	<i>14</i>	58,138	55,756
		<hr/> 481,176	<hr/> 471,126
Net assets		<hr/> 1,166,894	<hr/> 1,183,104
EQUITY			
Share capital	<i>15</i>	10,247	10,247
Reserves		1,119,244	1,134,516
		<hr/> 1,129,491	<hr/> 1,144,763
Equity attributable to equity holders of the Company		1,129,491	1,144,763
Minority interests		37,403	38,341
		<hr/> 37,403	<hr/> 38,341
Total equity		<hr/> 1,166,894	<hr/> 1,183,104

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to equity holders of the Company												
	Share capital	Share premium account	Convertible bonds reserve	Employee compensation reserve	Statutory surplus reserve	Convertible preferred		Warrants reserve	Exchange translation reserve	(Accumulated losses)/		Minority interests	Total equity
						share reserve	share reserve			retained profits	losses/		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2008	9,344	188,251	18,985	-	5,110	753,639	7,619	12,954	1,084,976	3,703	2,084,581		
Profit for the period	-	-	-	-	-	-	-	-	17,714	(776)	16,938		
Other comprehensive income for the period	-	-	-	-	-	-	-	166,684	-	770	167,454		
Total comprehensive income for the period	-	-	-	-	-	-	-	166,684	17,714	(6)	184,392		
Acquisition of equity interest of subsidiaries	-	-	-	-	-	-	-	-	-	87,878	87,878		
Issue of shares on acquisition of subsidiaries	903	107,398	-	-	-	-	-	-	-	-	108,301		
Recognition of equity-settled share-based compensation	-	-	-	44,197	-	-	-	-	-	-	44,197		
Balance at 30 June 2008	10,247	295,649	18,985	44,197	5,110	753,639	7,619	179,638	1,102,690	91,575	2,509,349		

	Equity attributable to equity holders of the Company												
	Share capital	Share premium account	Convertible bonds reserve	Employee compensation reserve	Statutory surplus reserve	Convertible preferred		Warrants reserve	Exchange translation reserve	(Accumulated losses)/		Minority interests	Total equity
						share reserve	share reserve			retained profits	losses/		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2009	10,247	295,649	18,985	38,031	5,110	753,639	7,619	168,910	(153,427)	38,341	1,183,104		
Loss for the period	-	-	-	-	-	-	-	-	(33,982)	(1,117)	(35,099)		
Other comprehensive income for the period	-	-	-	-	-	-	-	18,710	-	179	18,889		
Total comprehensive income for the period	-	-	-	-	-	-	-	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		

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June 2009 HK\$'000	Six months ended 30 June 2008 HK\$'000
Net cash outflow from operating activities	(33,823)	(81,492)
Net cash inflow/(outflow) from investing activities	7,377	(24,235)
Net cash outflow before financing activities	(26,446)	(105,727)
Net cash outflow from financing activities	(6,665)	(7,511)
Net decrease in cash and cash equivalents	(33,111)	(113,238)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	99,361	294,063
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	488	13,849
CASH AND CASH EQUIVALENTS AT END OF PERIOD	66,738	194,674
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	66,738	194,674
	66,738	194,674

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 2009. All material intercompany transactions and balances within the Group are eliminated on consolidation.

The accounting policies adopted in the condensed consolidated results are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2008.

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 2009. 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. Restatement of certain comparative financial information for the three months and the six months ended 30 June 2008

On 23 April 2008, the Group acquired 100% of the issued share capital of Zhong Ping for a consideration of HK\$148,381,000. This transaction has been accounted for by the acquisition method of accounting. Zhong Ping and its 70%-owned subsidiary, ARLA LLC, (collectively referred to as the “Zhong Ping Group”) engage in mining related business in Mongolia. The calculation of the Group’s share of the net fair value of the interests in subsidiaries acquired over the cost of acquisition in last year was confirmed during the 2008 year end audit as approximately HK\$118,110,000 instead of the amount of approximately HK\$38,128,000 disclosed in the 2008 interim report.

To comply with the HKFRS 3, in the preparation and presentation of comparative financial information for the Prior Periods Ended in this interim report, the Group was required to recognize and record the abovementioned consequential adjustments and the Excess on the Completion Date for the Acquisition. As a result, the Prior Periods Ended financial information had been adjusted and restated to account for the consequential financial effects.

3. 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	
	2009 <i>HK\$'000</i> (Unaudited)	2008 <i>HK\$'000</i> (Unaudited)	2009 <i>HK\$'000</i> (Unaudited)	2008 <i>HK\$'000</i> (Unaudited)
Sales of composite materials	824	6,251	2,521	38,863
Sales of PE/FRP Pipes	3,055	2,927	7,088	11,546
	3,879	9,178	9,609	50,409

4. Other income and gain

	Three months ended 30 June		Six months ended 30 June	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Bank interest income	8	1,085	44	1,430
Sundry income	–	2	–	5
	<u>8</u>	<u>1,087</u>	<u>44</u>	<u>1,435</u>

5. (Loss)/profit before income tax

(Loss)/profit before income tax is arrived at after charging/(crediting):

	Three months ended 30 June		Six months ended 30 June	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Interest income	(8)	(1,085)	(44)	(1,430)
Cost of inventories sold recognised as expenses	3,377	9,011	8,841	48,838
Operating lease charges on land and buildings	614	629	1,261	1,239
Depreciation (<i>Note 1</i>)	1,085	765	1,868	1,495
Amortisation of mining right	2,016	2,018	4,032	2,018
Amortisation of land use rights	174	178	348	349
Staff costs, including directors' emoluments	1,218	1,590	2,963	47,156
Contribution to retirement benefit scheme (<i>Note 2</i>)	17	19	32	35
	<u>17</u>	<u>19</u>	<u>32</u>	<u>35</u>

Notes:

1. Depreciation expense of approximately HK\$318,000 and HK\$805,000 for the three months and six months ended 30 June 2009 respectively (three months and six months ended 30 June 2008: HK\$313,000 and HK\$612,000) has been expensed in cost of goods sold.
2. Contribution to retirement benefit scheme for the period is included in “staff costs” above.

6. Finance costs

	Three months ended 30 June		Six months ended 30 June	
	2009	2008	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest expenses on convertible bonds maturing within five years	5,006	5,046	10,052	10,092
Imputed interest on convertible preferred shares	1,191	1,191	2,382	2,382
Others	–	–	207	–
	<hr/>	<hr/>	<hr/>	<hr/>
	6,197	6,237	12,641	12,474
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

7. Income tax

(a) Taxation in the consolidated income statement represents:

Three months ended 30 June		Six months ended 30 June	
2009	2008	2009	2008
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	(1,108)	–	(2,216)
	<hr/>	<hr/>	<hr/>

Total tax credit for the period	(1,108)	–	(2,216)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

(b) 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 2009 (three months and six months ended 30 June 2008: Nil).

No PRC profits tax has been provided as the subsidiary companies in PRC were either entitled to an exemption from 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 2009 (three months and six months ended 30 June 2008: Nil).

8. Dividend

The Board does not recommend the payment of any interim dividend in respect of the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

9. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the (loss)/profit for the three months and six months ended 30 June 2009 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 2009.

The calculation of diluted (loss)/earnings per share is based on the (loss)/profit for the three months and six months ended 30 June 2009 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 2009, as used in the basic (loss)/earnings 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 (loss)/earnings per share are based on the following data:

	Three months ended 30 June		Six months ended 30 June	
	2009 <i>HK\$'000</i> (Unaudited)	2008 <i>HK\$'000</i> (Unaudited) (restated)	2009 <i>HK\$'000</i> (Unaudited)	2008 <i>HK\$'000</i> (Unaudited) (restated)
(Loss)/earnings				
(Loss)/profit for the period attributable to the equity holders of the Company for calculation of basic (loss)/earnings per share	<u><u>(13,158)</u></u>	88,006	<u><u>(33,982)</u></u>	17,714
Interest on convertible bonds (Note)		5,046		207
Interest on convertible preferred shares		<u>1,191</u>		<u>2,382</u>
Profit for the period attributable to the equity holders of the Company for calculation of diluted earnings per share		<u><u>94,243</u></u>		<u><u>20,303</u></u>

Three months ended 30 June		Six months ended 30 June	
2009	2008	2009	2008
'000	'000	'000	'000
	(restated)		(restated)

Number of shares

Weighted average number of ordinary shares for the purposes of calculating basic (loss)/earnings per share	<u>8,197,355</u>	8,022,806	<u>8,197,355</u>	7,749,080
Effect of dilution-weighted average number of Ordinary shares:				
Convertible bonds (<i>Note</i>)		1,715,619		313,503
Convertible preferred shares		<u>2,802,235</u>		<u>2,802,235</u>
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share		<u>12,540,660</u>		<u>10,864,818</u>

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 six months ended 30 June 2008.

Diluted loss per share for the three months and six months ended 30 June 2009 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.

10. Segment information

Business segment

	Sales of		Manufacture and		Mine operation		Consolidated	
	Composite Materials		sales of PE/FRP pipes		Six months ended		Six months ended	
	Six months ended		Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June		30 June	
	2009	2008	2009	2008	2009	2008	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
								(restated)
Revenue from external customers	2,521	38,863	7,088	11,546	-	-	9,609	50,409
Cost of inventories sold	(2,524)	(37,889)	(6,317)	(10,949)	-	-	(8,841)	(48,838)
Other operating expenses	(1,434)	(1,828)	(4,032)	(542)	(4,119)	(2,018)	(9,585)	(4,388)
Segment results	(1,437)	(854)	(3,261)	55	(4,119)	(2,018)	(8,817)	(2,817)
Other income and gain							44	1,435
Finance costs							(12,641)	(12,474)
Share of (losses), net of associates							(10,282)	(32,590)
Excess of the Group's share of the net fair value of the interest in subsidiaries acquired over the cost of acquisition							-	118,110
Unallocated expenses							(5,619)	(54,726)
(Loss)/profit before income tax							(37,315)	16,938
Income tax							2,216	-
(Loss)/profit for the period							(35,099)	16,938

11. Trade receivables

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

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

	30 June 2009	31 December 2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within 30 days	26,658	3,729
31 – 60 days	–	4,669
61 – 90 days	94	13,532
Over 90 days	66	23,151
	<hr/> 26,818 <hr/>	<hr/> 45,081 <hr/>

12. Trade payables

	30 June 2009	31 December 2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within 30 days	5,894	1,494
31 – 60 days	9	1,661
61 – 90 days	11	13
Over 90 days	1	10
	<hr/> 5,915 <hr/>	<hr/> 3,178 <hr/>

13. Convertible bonds

As at 30 June 2009, the Group and the Company issued convertible bonds as below:

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 2009, the convertible bonds can be converted into 1,357,837,832 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.

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

	30 June 2009	31 December 2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Nominal value of convertible bonds	246,250	252,520
Equity component	(22,163)	(23,226)
Direct transaction costs attributable to the liability component	(7,087)	(7,087)
	<hr/>	<hr/>
Liability component on initial recognition	217,000	222,207
Accumulated interest expenses recognised	32,948	24,146
Accumulated interest paid	(7,511)	(7,573)
	<hr/>	<hr/>
Liability component at end of period/year	242,437	238,780
Less: current portion	–	(6,228)
	<hr/>	<hr/>
Non-current portion	242,437	232,552
	<hr/> <hr/>	<hr/> <hr/>

14. 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:

	Number of CPS	Equity component <i>HK\$'000</i>	Liability component <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December 2008 (audited)	2,802,235,294	753,639	55,756	809,395
Imputed interest	–	–	2,382	2,382
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2009 (unaudited)	2,802,235,294	753,639	58,138	811,777
	<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, 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\$485.5 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).

15. Share capital

	Number of shares of HK\$0.00125 each		Share capital	
	30 June 2009 '000 (Unaudited)	31 December 2008 '000 (Audited)	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
Authorised:				
Ordinary shares at beginning and at end of period	96,000,000	96,000,000	120,000	120,000
	<hr/>	<hr/>	<hr/>	<hr/>
	Number of shares of HK\$0.00125 each		Share capital	
	30 June 2009 '000 (Unaudited)	31 December 2008 '000 (Audited)	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
Issued and fully paid:				
Ordinary shares				
at beginning of the period	8,197,355	7,475,355	10,247	9,344
Issues of new shares	–	722,000	–	903
	<hr/>	<hr/>	<hr/>	<hr/>
Ordinary shares at end of period	8,197,355	8,197,355	10,247	10,247
	<hr/>	<hr/>	<hr/>	<hr/>

16. Operating lease arrangement

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 2009, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings fall due as follows:

	30 June 2009	31 December 2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within one year	1,874	2,455
After one year but within five years	611	1,891
	<hr/> 2,485 <hr/>	<hr/> 4,346 <hr/>

Save as aforesaid, the Group did not have any other significant commitments as at 30 June 2009 (30 June 2008: Nil).

17. Capital commitment

The Group

Capital commitments outstanding at the balance sheet date not provided for in the financial statements were as follows:

	The Group	
	30 June	31 December
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Property, plant and equipment contracted but not provided for	7,239	84,222
Property, plant and equipment authorised but not contracted for	46,194	46,194
Proposed investment in an associate contracted but not provided for	—	8,950
	<u>53,433</u>	<u>139,366</u>

The Company

The Company does not have any significant capital commitments.

Save as aforesaid, the Group did not have any other significant commitments as at 30 June 2009 (30 June 2008: Nil).

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. As expected, turnover of the first half of 2009 was reduced significantly due to the unfavoured economic condition. Other than that, the performance of the Group for the six months period ended 30 June 2009 was not seriously affected although the effect of the financial tsunami continued.

The business segment of the Polyethylene Pipes ("PE Pipes") and Fibre Glass Reinforced Plastic Pipes ("FRP Pipes") was performing well in 2008 and would remain the main business of the Group in 2009. Such business is not a new business segment and has been the core business of the Group for many years. The PE Pipes and FRP Pipes are products employed for constructions and city developments in the PRC. Our major customers are mainly government entities of different provinces and cities in PRC. Given the fast and continuous development of PRC, the Directors believe that the demands for our products are sustainable.

During the period under review, the Group's shareholding in Xin Shougang Zi Yuan Holdings Limited ("Xin Shougang"), previously an associated company of the Group, reduced from 22.28% to 12.21%. The reduction was mainly due to the injection of additional share capital into Xin Shougang by the controlling shareholder of Xin Shougang. Such investment is now classified as available-for-sale financial asset.

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 operates primarily in the markets of the independent sovereign state of Mongolia and the PRC through its investment in Xin Shougang.

The Group will focus on the development and integration of the manufacturing and mining businesses. However, the current economic condition has already affected the progress to commence the mining business. The management will carefully monitor the mining business in the benefit of the Company.

Financial review

Turnover was approximately HK\$9,609,000 for the period under review, which represented a decrease of 81% when compared with approximately HK\$50,409,000 in the corresponding period. The decrease in sale was mainly due to the decrease in sale of composite materials which contributed for over 77% of total turnover in the same period in 2008. Such decrease was mainly due to unfavoured economic condition and the Group was shifting its resources to manufacturing and sale of PE Pipes and FRP Pipes. The unaudited loss before income tax for the period under review was approximately HK\$37,315,000 while the unaudited profit before income tax for corresponding period was approximately HK\$16,938,000 (restated). The loss attributable to equity holders of the Company was approximately HK\$33,982,000 (six months ended 30 June 2008: profit of approximately HK\$17,714,000 (restated)). The loss for the period under review was mainly attributable to (i) the share of the loss of associated company of approximately HK\$10,282,000; and (ii) relatively low turnover in the reporting period. 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 issue by way of rights of 4,098,677,600 rights shares (the “Rights Share(s)”) in the proportion of one Rights Share for every two shares at a price of HK\$0.02 per Rights Share (the “Rights Issue”) was duly completed on 7 August 2009. Total net proceeds of approximately HK\$74 million was received and the Company intends to use part of the net proceeds of not less than HK\$40 million to facilitate future development and expansion of the foregoing PE Pipes and FRP Pipes production business in the PRC. Details of the Rights Issue are set out in the announcement and the prospectus of the Company dated 24 June 2009 and 15 July 2009 respectively.

Liquidity and financial resources

With the funds raised previously and the internal resources of the Company, as at 30 June 2009, the Directors anticipate that the Group has adequate financial resources to meet its ongoing operations and future development, even under the impact of the financial tsunami.

Employee information

As at 30 June 2009, the Group has 5 full-time employees working in Hong Kong and 119 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\$2,963,000. 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 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

Save as disclosed above, there were no material acquisition or disposal of subsidiaries and affiliated companies during the six months ended 30 June 2009.

Segmental information

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

Charge on group assets and contingent liabilities

During the period under review, the Group did not have any significant contingent liabilities and no assets of the Group were pledged (six months ended 30 June 2008: Nil).

Subsequent Events

1. Rights Issue

On 24 June 2009, the Company announced that, among other things, it entered into the underwriting agreement (the “Underwriting Agreement”) with KGI Capital Asia Limited (the “Underwriter”) in relation to the issue by way of rights of 4,098,677,600 rights shares (the “Rights Share(s)”) in the proportion of one Rights Share for every two shares at a price of HK\$0.02 per Rights Share (the “Rights Issue”). The Company proposed to raise not less than approximately HK\$81.9 million and not more than approximately HK\$124.9 million before expenses by way of the Rights Issue of not less than 4,098,677,600 Rights Shares and not more than 6,243,689,163 Rights Shares at a price of HK\$0.02 per Rights Share. The estimated net proceeds from the Rights Issue will be approximately HK\$74 million. The Company intends to use part of the net proceeds of not less than HK\$40 million to facilitate future development and expansion of the foregoing PE Pipes and FRP Pipes production business in the PRC and retain the balance as general working capital of the Group. The Rights Issue was duly completed on 7 August 2009. Details of the Rights Issue are set out in the announcement and the prospectus of the Company dated 24 June 2009 and 15 July 2009 respectively.

2. *Share Consolidation*

The Board announced on 7 July 2009 the proposal that every ten shares of HK\$0.00125 each in the issued and unissued share capital of the Company be consolidated into one consolidated shares of HK\$0.0125 each in the issued and unissued share capital of the Company (the “Consolidated Shares”) (the “Share Consolidation”). The authorised share capital of the Company will remain at HK\$120,000,000 divided into 9,600,000,000 Consolidated Shares each following the Share Consolidation.

As the price of the Shares approaches the limit of HK\$0.01, the Company was required to consolidate the Shares pursuant to Rule 17.76 of the GEM Listing Rules.

The proposed Share Consolidation will increase the par value of the shares of the Company (the “Shares”) and reduce the total number of Shares currently in issue. Other than the expenses to be incurred by the Company in relation to the Share Consolidation, the implementation thereof will not, by itself, affect the underlying assets, business operations, management or financial position of the Group or the interests of shareholders of the Company as a whole. Details of the Share Consolidation are set out in the announcement and circular of the Company dated 7 July 2009 and 23 July 2009 respectively.

Gearing ratio

As at 30 June 2009, the Group had cash and cash equivalents of approximately HK\$66,738,000 in its current assets while its current liabilities stood at approximately HK\$15,773,000, and the Group had long-term loan of approximately HK\$300,575,000 and its shareholders’ funds amounted to approximately HK\$1,129,491,000. In this regard, the Group had a net cash position and its gearing ratio should be approximately 26.6% (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 2009, 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 8,197,355,200 ordinary shares in issue as at 30 June 2009, not on the total number of issued shares upon full conversion or exercise of (i) the warrants (there are in total 634,950,000 warrants outstanding and 634,950,000 ordinary shares will be issued if all these warrants are exercised), (ii) the convertible bonds (the “Convertible Bonds”) issued to Lehman Brothers Commercial Corporation Asia Limited (“Lehman Brothers”) (under liquidation and liquidator appointed) pursuant to the conditional subscription agreement dated 12 June 2007, (iii) the preferred shares issued to Great Ocean Real Estate Limited (“GORE”) (the “Preferred Shares”) and (iv) the 586,000,000 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\$0.00125 each in the Company as at 30 June 2009:

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

Note: Ms. Ma Zheng is holding 12.5% of the equity interest of 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 2009:

Name of Directors	Type of interests	Description of securities	Number of underlying shares	Approximate percentage of interests
Ms. Ma Zheng	Beneficial	Share Option (Note)	20,000,000	0.24%
Mr. Liu Weichang	Beneficial	Share Option (Note)	3,000,000	0.04%
Mr. Wan Tze Fan Terence	Beneficial	Share Option (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. 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 2009, 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 were set out in the announcement dated 17 March 2004. As at 30 June 2009, 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 2009, the Company has 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 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, 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 2009 were as follows:

Grantees	Date granted	Balance as at 1 January 2009 '000	Granted during the period '000	Exercised during the period '000	Lapsed during the period '000	Balance as at 30 June 2009 '000	Period during which the options are exercisable	Exercise price per share
Ms. Ma Zheng (Director)	8 January 2008	20,000	-	-	-	20,000	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	560,000	-	-	-	560,000	8 July 2008 to 27 November 2011	HK\$0.22
		<u>586,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>586,000</u>		

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 2009, 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 8,197,355,200 ordinary shares in issue as at 30 June 2009, not on the total number of issued shares upon full conversion or exercise of (i) the warrants (there are in total 634,950,000 warrants outstanding and 634,950,000 ordinary shares will be issued if all these warrants are exercised), (ii) the Convertible Bonds issued to Lehman Brothers (under liquidation and liquidator appointed) pursuant to the conditional subscription agreement dated 12 June 2007, (iii) the Preferred Shares issued to GORE and (iv) the 586,000,000 outstanding share options granted under the share option scheme adopted by the Company on 28 November 2001.

- (i) *Long/short position in the ordinary shares of HK\$0.00125 each in the Company as at 30 June 2009:*

Long position

Name of shareholders	Type of interests	Number of the shares held	Approximate percentage of interests
Future Advance Holdings Limited	Beneficial	2,576,194,460	31.43%
China Zong Heng Holdings Limited	Corporate (Note 1)	2,576,194,460	31.43%
Mr. Yu Hongzhi	Corporate (Note 1)	2,576,194,460	31.43%
	Beneficial	76,000,000	0.93%
	Subtotal:	2,652,194,460	32.36%

Name of shareholders	Type of interests	Number of the shares held	Approximate percentage of interests
APAC Resources Limited	Corporate	862,912,520	10.53%
Super Grand Investments Limited (“Super Grand”)	Beneficial <i>(Note 2)</i>	862,912,520	10.53%
胡玉女士(Ms. Hu Yu) [#]	Beneficial	473,088,000	5.77%
The Underwriter	Corporate <i>(Note 3)</i>	4,100,000,000	50.02%
KGI Asia Limited	Corporate <i>(Note 3)</i>	4,100,000,000	50.02%
KGI Limited	Corporate <i>(Note 3)</i>	4,100,000,000	50.02%
KGI International Holdings Limited	Corporate <i>(Note 3)</i>	4,100,000,000	50.02%
Ms. Zheng Qing Hong	Beneficial <i>(Note 4)</i>	1,400,000,000	17.08%

Short position

Name of shareholders	Type of interests	Number of the shares held	Approximate percentage of interests
The Underwriter	Corporate <i>(Note 3)</i>	4,100,000,000	50.02%
KGI Asia Limited	Corporate <i>(Note 3)</i>	4,100,000,000	50.02%
KGI Limited	Corporate <i>(Note 3)</i>	4,100,000,000	50.02%
KGI International Holdings Limited	Corporate <i>(Note 3)</i>	4,100,000,000	50.02%

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), 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.
2. These shares are held by Super Grand and Super Grand is the wholly-owned subsidiary of APAC Resources Limited, the issued shares of which are listed on the main board of the Stock Exchange.
3. Pursuant to the Underwriting Agreement of the Rights Issue, the Underwriter has agreed to underwrite up to 4,100,000,000 Rights Shares and shall, not later than 4:00 pm on 3 August 2009, enter into binding agreement(s) with certain sub-underwriting agent(s), which shall be independent third party(ies) not connected or acting in concert (having the meaning under the Hong Kong Code on Takeovers and Mergers (the “Takeovers Code”) with any Directors, chief executive, management shareholders or substantial shareholder(s) of the Company or its subsidiaries or any of their respective associates, for sub-underwriting of the Rights Shares, such that the Underwriter together with parties acting in concert with it shall not have a mandatory offer obligation under Rule 26 of the Takeovers Code. The Underwriter also entered into a sub-underwriting agreement with KGI Asia Limited (the “Sub-underwriter”) on 24 June 2009 pursuant to which the Sub-underwriter agreed to sub-underwrite up to 4,100,000,000 Rights Shares. The Underwriter and the Sub-underwriter are accordingly directly interested in the Shares. Each of the Underwriter and the Sub-underwriter is a wholly-owned subsidiary of KGI Limited. KGI Limited is a wholly-owned subsidiary of KGI International Holdings Limited. Accordingly, KGI International Holdings Limited is indirectly interested in the Shares.
4. On 24 June 2009, Ms. Zheng Qing Hong entered into a sub-subunderwriting agreement with the Sub-underwriter pursuant to which Ms. Zheng Qing Hong agreed to sub-subunderwrite up to 1,400,000,000 Rights Shares from the Sub-underwriter.

(ii) Long position in the underlying shares or debentures of the Company as at 30 June 2009:

Name	Type of interests	Description of derivatives	Number of underlying shares	Approximate percentage of interests
Lehman Brothers Holdings Inc. (under liquidation)	Beneficial	Convertible Bonds (Notes 1 & 3)	1,357,837,832	16.56%
Great Ocean Real Estate Limited	Beneficial	Preferred Shares (Notes 2 & 3)	2,802,235,294	34.18%
Mr. Zhang Zheng (張征先生)	Corporate	Preferred Shares (Notes 2 & 3)	2,802,235,294	34.18%

Notes:

1. The underlying shares are held by Lehman Brothers (under liquidation and liquidator appointed), the ultimate beneficial owner of which is Lehman Brothers Holdings Inc. (under liquidation). 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 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 2009, the maximum number of new shares to be issued upon full conversion of the Convertible Bonds is 1,357,837,832 shares, 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 HK\$0.00125 each of the Company at the initial conversion rate of 1:1, subject to adjustments.
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 respectively.

Save as disclosed above, as at 30 June 2009, 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 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 a company incorporated in the PRC and principally engaged in selling and producing PE Pipes in the PRC. Mr. Yu Hongzhi was not the controlling shareholder of 宜昌弘訊管業有限公司 (Yichang HongXun Conduit and Calling Company Limited)[#] during the period under review. Save as disclosed above, as at 30 June 2009, none of the Directors, chief executive, 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 2009.

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 2009 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 2009. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the period ended 30 June 2009.

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 2009, 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 2009.

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

Hong Kong, 11 August 2009

[#] *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.