



中國基礎能源控股有限公司 China Primary Energy Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 8117)



2016

Interim Report



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This report, for which the directors (the “Directors”) of CHINA PRIMARY ENERGY HOLDINGS LIMITED (the “Company”) 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 the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.



HIGHLIGHTS

Revenue was approximately HK\$105,060,000 for the six months ended 30 June 2016 (six months ended 30 June 2015: approximately HK\$68,495,000), representing an increase of approximately 53% from the corresponding period of last year.

Loss attributable to owners of the Company amounted to approximately HK\$25,006,000 (six months ended 30 June 2015: loss of approximately HK\$22,845,000).

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

UNAUDITED RESULTS

The board of Directors (the “Board”) of China Primary Energy 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 2016 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 STATEMENT OF
PROFIT OR LOSS AND COMPREHENSIVE INCOME**

	Notes	Three months ended		Six months ended	
		30 June		30 June	
		2016	2015	2016	2015
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	2	58,158	36,018	105,060	68,495
Other income and gains and losses	3	189	(1,338)	(123)	(1,129)
Cost of sales		(49,672)	(28,526)	(84,242)	(57,228)
Staff costs, including directors' remuneration		(9,907)	(7,531)	(20,238)	(13,127)
Depreciation		(3,323)	(1,961)	(6,594)	(3,668)
Amortisation of land use rights		(183)	(203)	(378)	(402)
Amortisation of other intangible assets		(356)	(356)	(712)	(712)
Other operating expenses		(8,303)	(6,076)	(14,787)	(13,044)
Share of losses of associates		(191)	(367)	(464)	(404)
Finance costs	4	(986)	(1,519)	(1,946)	(2,393)
Loss before income tax	5	(14,574)	(11,859)	(24,424)	(23,612)
Income tax	6	-	-	-	-
Loss for the period		(14,574)	(11,859)	(24,424)	(23,612)
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations		(9,971)	(2,250)	(6,967)	(1,988)
Other comprehensive income for the period		(9,971)	(2,250)	(6,967)	(1,988)
Total comprehensive income for the period		(24,545)	(14,109)	(31,391)	(25,600)



	Note	Three months ended		Six months ended	
		30 June		30 June	
		2016	2015	2016	2015
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss attributable to:					
Owners of the Company		(13,849)	(11,023)	(25,006)	(22,845)
Non-controlling interests		(725)	(836)	582	(767)
		<u>(14,574)</u>	<u>(11,859)</u>	<u>(24,424)</u>	<u>(23,612)</u>
Total comprehensive income attributable to:					
Owners of the Company		(23,301)	(13,274)	(31,600)	(24,838)
Non-controlling interests		(1,244)	(835)	209	(762)
		<u>(24,545)</u>	<u>(14,109)</u>	<u>(31,391)</u>	<u>(25,600)</u>
Basic and diluted loss per share	8	<u>(1.49 cents)</u>	<u>(1.33 cents)</u>	<u>(2.69 cents)</u>	<u>(2.77 cents)</u>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION**

		30 June 2016	31 December 2015
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment		238,450	224,751
Land use rights		29,379	30,397
Goodwill		32,814	32,814
Other intangible assets		22,461	23,086
Interests in associates		5,999	6,509
Prepayments		18,673	19,093
Available-for-sale investments		33	33
		<hr/>	<hr/>
Total non-current assets		347,809	336,683
		<hr/>	<hr/>
Current assets			
Inventories		15,479	9,007
Trade receivables	<i>10</i>	100,878	69,571
Other receivables, deposits and prepayments		75,804	70,659
Amount due from associates		85	380
Investments held for trading		1,181	6
Financial assets at fair value through profit or loss	<i>12</i>	2,005	1,672
Cash and cash equivalents		26,745	62,263
		<hr/>	<hr/>
Total current assets		222,177	213,558
		<hr/>	<hr/>
Total assets		569,986	550,241
		<hr/>	<hr/>
Current liabilities			
Trade payables	<i>11</i>	76,712	31,543
Other payables and accruals		53,742	63,081
Customers' deposit		14,486	3,776
Obligations under finance leases		2,329	4,963
Borrowings		2,918	1,790
Tax payable		–	227
		<hr/>	<hr/>
Total current liabilities		150,187	105,380
		<hr/>	<hr/>
Net current assets		71,990	108,178
		<hr/>	<hr/>



		30 June 2016	31 December 2015
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Non-current liabilities			
Deferred tax liabilities		7,329	7,449
Obligations under finance leases		9,966	9,387
Borrowings	<i>13</i>	37,054	39,976
		<hr/>	<hr/>
Total non-current liabilities		54,349	56,812
		<hr/>	<hr/>
Total liabilities		204,536	162,192
		<hr/>	<hr/>
NET ASSETS		365,450	388,049
		<hr/> <hr/>	<hr/> <hr/>
Equity			
Share capital	<i>14</i>	58,181	58,181
Reserves		282,334	308,512
		<hr/>	<hr/>
Equity attributable to owners of the Company		340,515	366,693
Non-controlling interests		24,935	21,356
		<hr/>	<hr/>
TOTAL EQUITY		365,450	388,049
		<hr/> <hr/>	<hr/> <hr/>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the Company									
	Share capital	Share premium account	Convertible		Statutory surplus reserve	Exchange translation reserve	Share option reserve	Accumulated losses	Non-controlling interests	Total equity
			bonds equity reserve	Employee compensation reserve						
HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	
Balance at 1 January 2015	51,306	510,993	-	-	5,179	64,528	-	(394,670)	9,009	246,345
Loss for the period	-	-	-	-	-	-	-	(22,845)	(767)	(23,612)
Other comprehensive income	-	-	-	-	-	(1,993)	-	-	5	(1,988)
Total comprehensive income	-	-	-	-	-	(1,993)	-	(22,845)	(762)	(25,600)
Recognition of equity-settled share based compensation	-	-	-	2,699	-	-	-	24	-	2,723
Subscription of shares	6,875	146,025	-	-	-	-	-	-	-	152,900
Balance at 30 June 2015	58,181	657,018	-	2,699	5,179	62,535	-	(417,491)	8,247	376,368

	Equity attributable to owners of the Company									
	Share capital	Share premium account	Convertible		Statutory surplus reserve	Exchange translation reserve	Share option reserve	Accumulated losses	Non-controlling interests	Total equity
			bonds equity reserve	Employee compensation reserve						
HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	
Balance at 1 January 2016	58,181	657,018	80,179	-	5,240	44,081	7,976	(485,982)	21,356	388,049
Loss for the period	-	-	-	-	-	-	-	(25,006)	582	(24,424)
Other comprehensive income	-	-	-	-	-	(6,594)	-	-	(373)	(6,967)
Total comprehensive income	-	-	-	-	-	(6,594)	-	(25,006)	209	(31,391)
Equity settled share-based transactions	-	-	-	-	-	-	5,422	-	-	5,422
Capital contribution to a non-wholly owned subsidiary by a non-controlling shareholder	-	-	-	-	-	-	-	-	3,370	3,370
Balance at 30 June 2016	58,181	657,018	80,179	-	5,240	37,487	13,398	(510,988)	24,935	365,450



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June 2016 <i>HK\$'000</i>	Six months ended 30 June 2015 <i>HK\$'000</i>
Net cash used in operating activities	(27,805)	(16,614)
Net cash used in investing activities	(1,107)	(52,158)
Net cash generated from financing activities	(5,432)	192,892
Net increase in cash and cash equivalents	(34,344)	124,120
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	62,263	8,708
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(1,174)	6
CASH AND CASH EQUIVALENTS AT END OF PERIOD	26,745	132,834
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	26,745	132,834

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

The Company is a limited liability company incorporated in the Cayman Islands, as an exempted company under the Companies Law (2001 Revision) of the Cayman Islands on 5 September 2001. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is in Hong Kong. The Company's shares are listed on the GEM of the Stock Exchange.

The principal activity of the Company is investment holding. The Group engages in the manufacture and sale of Polyethylene pipes ("PE pipes") and transmission and distribution of natural gas which operates primarily in the PRC market.

The unaudited condensed consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), Hong Kong Accounting Standards ("HKASs") and interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. The financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair values.

The unaudited condensed consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The accounting policies adopted in the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In this reporting period, the Group had applied for the first time, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2016. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting periods as prepared and presented.

2. REVENUE

Revenue represents the net invoiced amounts received and receivable for sales of PE pipes and natural gas to customers. An analysis of the Group's revenue is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Sales of PE pipes	12,651	18,128	18,611	27,302
Transmission and distribution of natural gas	45,507	17,890	86,449	41,193
	58,158	36,018	105,060	68,495

3. OTHER INCOME AND GAINS AND LOSSES

	Three months ended 30 June		Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Sundry income	(148)	325	(130)	507
Bank interest income	61	25	97	33
Change in fair value of financial assets of fair value through profit or loss	698	(1,333)	333	(1,333)
Gain on disposal of investments held for trading	-	3	-	3
Fair value loss on investments held for trading	(422)	(358)	(423)	(339)
	189	(1,338)	(123)	(1,129)

4. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interests on bank loan and other borrowings	578	1,519	1,184	2,393
Finance lease interest	408	–	762	–
	<u>986</u>	<u>1,519</u>	<u>1,946</u>	<u>2,393</u>

5. LOSS BEFORE INCOME TAX

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Loss before income tax is arrived at after charging:				
Minimum operating lease payments in respect of land and buildings	1,076	967	2,285	1,705
Depreciation of property, plant and equipment (<i>Note</i>)				
– Owned	6,199	4,361	11,510	8,364
– Held under finance leases	410	22	792	42
	<u>6,199</u>	<u>4,361</u>	<u>11,510</u>	<u>8,364</u>

Note: Depreciation charge included amount of HK\$3,287,000 and HK\$5,709,000 respectively for the three months and six months ended 30 June 2016 (three months and six months ended 30 June 2015: HK\$2,316,000 and HK\$4,739,000 respectively) recognised as cost of sales for the periods under review.



6. INCOME TAX

Income tax in the unaudited condensed consolidated statement of profit or loss and other comprehensive income represents:

	Three months ended 30 June		Six months ended 30 June	
	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)
Income tax for the period	-	-	-	-

No provision has been made for Hong Kong profits tax as the Group has no assessable profit arising from Hong Kong during the current and prior periods.

In accordance with the PRC Enterprise Income Tax Law approved by the National People's Congress on 16 March 2007 and became effective from 1 January 2008, the Group's subsidiaries in the PRC are subject to enterprise income tax ("EIT") at the unified EIT rate of 25%.

7. DIVIDEND

The board of directors does not recommend the payment of any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

8. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

Three months ended 30 June		Six months ended 30 June	
2016	2015	2016	2015
HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)

Loss:

Loss for the purposes of basic and
diluted loss per share

13,849	11,023	25,006	22,845
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Three months ended 30 June		Six months ended 30 June	
2016	2015	2016	2015
'000	'000	'000	'000

Number of shares:

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

930,898	829,359	930,898	825,152
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As the convertible bonds and share options outstanding during the reporting periods had an anti-dilutive effect on the basic loss per share, the conversion of the above potential dilutive shares was not assumed in the calculation of the diluted loss per share in both reporting periods. Accordingly, the basic and diluted loss per share for the respective reporting periods are the same.

9. SEGMENT REPORTING

Business segment

For the six months ended 30 June 2016

	Manufacture and sale of PE pipes <i>HK\$'000</i> (Unaudited)	Transmission and distribution of natural gas <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Revenue from external customers	18,611	86,449	105,060
Reportable segment (loss)/profit	(9,574)	5,740	(3,834)
Reportable segment assets	170,222	251,911	422,133
Reportable segment liabilities	(30,699)	(115,807)	(146,506)
Other segment information:			
Bank interest income	10	18	28
Unallocated			69
Total bank interest income			97
Gain on disposal of investments held for trading			-
Fair value loss on investments held for trading			(422)
Finance costs			(1,946)
Depreciation	(5,991)	(5,700)	(11,691)
Unallocated			(611)
Total depreciation			(12,302)
Amortisation of land use rights	(358)	(20)	(378)
Amortisation of other intangible assets		(712)	(712)
Additions to non-current assets	349	669	1,018
Unallocated			89
Total additions to non-current assets			1,107

For the six months ended 30 June 2015

	Manufacture and sale of PE pipes <i>HK\$'000</i> (Unaudited)	Transmission and distribution of natural gas <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Revenue from external customers	27,302	41,193	68,495
Reportable segment loss	(3,499)	(795)	(4,294)
Reportable segment assets	226,856	104,293	331,149
Reportable segment liabilities	(33,079)	(51,001)	(84,080)
Other segment information:			
Bank interest income			33
Gain on disposal of investments held for trading			3
Fair value loss on investments held for trading			(339)
Finance costs			(2,393)
Depreciation Unallocated	(6,545)	(1,589)	(8,134) (272)
Total depreciation			(8,406)
Amortisation of land use rights	(384)	(18)	(402)
Amortisation of other intangible assets		(712)	(712)
Additions to non-current assets Unallocated	174	8,302	8,476 18
Total additions to non-current assets			8,494

10. TRADE RECEIVABLES

	30 June 2016	31 December 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Trade receivables	134,345	103,791
Less: Provision for impairment	(33,467)	(34,220)
	<u>100,878</u>	<u>69,571</u>

- (a) The Group's trading terms from sales of PE pipes and composite materials 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 and can be extended to three months or more for major customers. For the business of transmission and distributions of natural gas, payment in advance is normally required and some customers are on credit terms within 30 days. The Group sets a maximum credit limit for each customer and seeks to maintain strict control over its outstanding receivables. The sales department and the management of the responsible department for the sales together perform the credit control function to minimise credit risk. Overdue balances are reviewed and followed up regularly by senior management.
- (b) The table below reconciled the provision for impairment loss of trade receivables for the period:

	30 June 2016	31 December 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
At beginning of the period/year	34,220	31,368
Impairment loss recognised	–	4,258
Exchange realignment	(753)	(1,406)
	<u>33,467</u>	<u>34,220</u>

At 30 June 2016, the Group's trade receivables of HK\$33,467,000 (2015: HK\$34,220,000) were individually determined to be impaired. These receivables have been long outstanding and management assessed them to be irrecoverable. The Group does not hold any collateral over these balances.

- (c) An ageing analysis of the trade receivables (net of impairment loss) as at the end of reporting period, based on the invoice dates, is as follows:

	30 June	31 December
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within 30 days	57,195	25,604
31 – 60 days	8,303	4,582
61 – 90 days	5,401	2,901
Over 90 days	29,979	36,484
	<hr/> 100,878 <hr/>	<hr/> 69,571 <hr/>

- (d) An ageing analysis of trade receivables (net of impairment loss) that are neither individually nor collectively considered to be impaired is as follows:

	30 June	31 December
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Not past due	75,041	52,902
Less than 31 days past due	7,039	4,531
31 – 60 days past due	2,023	755
61 – 90 days past due	1,355	630
Over 90 days but less than 1 year past due	5,065	1,498
More than 1 year due	10,355	9,255
	<hr/> 25,837 <hr/>	<hr/> 16,669 <hr/>
	<hr/> 100,878 <hr/>	<hr/> 69,571 <hr/>



11. TRADE PAYABLES

An ageing analysis of trade payables, based on the invoice dates, is as follows:

	30 June 2016	31 December 2015
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Within 30 days	35,097	8,536
31 – 60 days	680	4,092
61 – 90 days	1,658	3,528
Over 90 days	39,277	15,387
	<hr/> 76,712 <hr/>	<hr/> 31,543 <hr/>

12. CONVERTIBLE BONDS

As detailed in the Company's announcement dated 17 February 2015, the Company entered into the conditional subscription agreement with an independent third party, Golden Peak Minerals Limited (the "CB Subscriber" or the "Bondholder"), on 17 February 2015 pursuant to which the CB Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to issue the five-year 4.5% coupon unlisted convertible bonds in principal amount of HK\$60,000,000 (the "Convertible Bonds" or the "Bonds"). Interest is payable at the anniversary of the issue date each year. As further detailed in the Company's announcement dated 8 April 2015, the Company's proposed resolution for the issue of the Convertible Bonds was duly passed by the shareholders in the extraordinary general meeting held on 8 April 2015 and the Convertible Bonds was executed and issued by a resolution of the board of directors of the Company on 8 May 2015.

Based on the initial conversion price of HK\$1.00 (the "Conversion Price") per conversion share, a maximum number of 60,000,000 conversion shares (the "Conversion Share(s)") will be allotted and issued upon exercise of the conversion rights attached to the Convertible Bonds in full.

The Convertible Bonds shall not be converted into conversion shares for the period from the date of issue of the Convertible Bonds to the date falling three years after the issue of the Convertible Bonds.

The Conversion Price is initially HK\$1.00 per Conversion Share, subject to adjustment for subdivision or consolidation of shares, rights issue, stock or cash distribution other than out of distributable profits of the Company, and other dilutive events (which are general anti-dilution adjustments).

Upon receiving a conversion notice from the Bondholder, the Company shall at its discretion be entitled to redeem the whole amount of outstanding Convertible Bonds or such amount of the Bonds to be converted as set out in that conversion notice (at principal plus interest (to be settled in cash), rather than at fair value of the shares that would be converted), rather than to issue the relevant number of Conversion Shares by giving written notice to the Bondholder within 3 business days from the date of the giving of the relevant conversion notice.

At any time before the maturity date, the Company, by serving at least 14 days' prior written notice, can redeem the Convertible Bonds (in whole or in part) at 100% of the outstanding principal amount of the Convertible Bonds together with interest accrued (to be settled in cash) but unpaid up to the date of redemption. Issuer's redemption option starts on 8 May 2015 and ends on 24 April 2020 (taking into account at least 14 days' prior written notice before the maturity date on 8 May 2020).

At the absolute discretion of the Company, any outstanding Convertible Bonds shall be either (i) redeemed at 100% of its principal amount; or (ii) converted into Conversion Shares at the then conversion price; or (iii) any combination of redemption and conversion, on the maturity date.

The respective values of the financial assets at fair value through profit or loss and equity component of the Convertible Bonds are as follows:

	Financial assets at fair value through profit or loss <i>HK\$'000</i>	Convertible bonds equity reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2015	–	–	–
Issue of Convertible Bonds during the year	20,380	(80,179)	(59,799)
Change in fair value	(18,708)	–	(18,708)
	<hr/>	<hr/>	<hr/>
At 31 December 2015 (Audited)	1,672	(80,179)	(78,507)
	<hr/>	<hr/>	<hr/>
Change in fair value	333	–	333
	<hr/>	<hr/>	<hr/>
At 30 June 2016 (Unaudited)	2,005	(80,179)	78,174
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

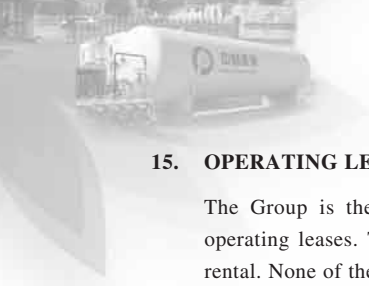
13. BORROWINGS

	30 June 2016 <i>HK\$'000</i> (Unaudited)	31 December 2015 <i>HK\$'000</i> (Audited)
Current		
Secured bank loan due for repayment within one year (i)	2,918	1,790
Non-current		
Secured bank loan due for repayment within two to five years (i)	37,054	39,976
	<hr/>	<hr/>
Interest bearing and unsecured borrowings	39,972	41,766
	<hr/> <hr/>	<hr/> <hr/>

- (i) The Group's bank loan of HK\$39,972,000 as at 30 June 2016 is secured by the Group's equity interests of two subsidiaries of Wuhu Shengyuteng and Ningguo CP, certain properties of a director and a director's family member, the corporate guarantee of the Company and a director's personal guarantee. The bank loan bears interest at base rate of People's Bank of China plus 20% of the base rate per annum and is repayable within five years. The weighted average base rate of People's Bank of China plus 20% of the base rate per annum in respect of the bank loan is 5.7% during the six months ended 30 June 2016.
- (ii) The Group's borrowings are denominated in Renminbi.

14. SHARE CAPITAL

	Number of shares	Amount
	'000	HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.0625 each		
at 31 December 2015, 1 January 2016		
and 30 June 2016	1,920,000	120,000
	<u> </u>	<u> </u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.0625 each		
at 31 December 2015, 1 January 2016		
and 30 June 2016	930,898	58,181
	<u> </u>	<u> </u>



15. OPERATING LEASES

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

At the end of reporting period, the Group had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

	30 June 2016	31 December 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within one year	3,455	3,998
After one year but within five years	2,842	4,813
	<hr/> 6,297 <hr/>	<hr/> 8,811 <hr/>

16. CAPITAL COMMITMENTS

	30 June 2016	31 December 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Contracted but not provided:		
– acquisition of property, plant and equipment	9,024	11,424
	<hr/> 9,024 <hr/>	<hr/> 11,424 <hr/>

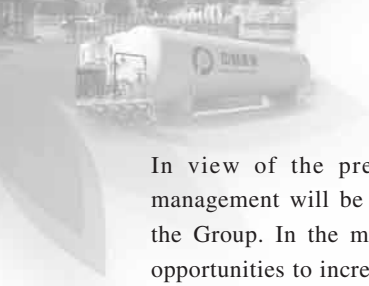
MANAGEMENT DISCUSSION AND ANALYSIS

Business review and future outlook

Revenue of the Group for the six months ended 30 June 2016 increased when compared to the corresponding period in 2015. Such increase was mainly because in the first half of 2016, the natural gas business continued to contribute significant revenue to the Group. The board of directors (the “Board”) believes that revenue of the Group will be further improved with the development of the natural gas business and anticipated improvement of the Polyethylene pipes (“PE pipes”) business. Therefore, the results of the Group will be improved accordingly.

After years of business transformation, the natural gas business has become the core business of the Group. Operating performance of the natural gas business segment continued to improve in the first half of 2016. In view of the People’s Republic of China (the “PRC”) government has implemented the policy to use clean energy in the PRC, the prospect of natural gas business is very bright. As a result of various acquisitions and investments of the natural gas business in the past two years, the Group operated the natural gas business in various areas and provinces in the PRC. Our customers include industrial customers and domestic customers. The Group is of the view that the natural gas business is still growing and will become the most significant business of the Group in the near future.

The business segment of the PE pipes has been the major business of the Group in previous years and continued as one of the main businesses of the Group in 2016. The PE pipes include both water pipes and gas pipes. They are products used for construction and city development in the PRC. The Group’s major customers are the government and public entities, or their suppliers, from different provinces and cities in the PRC. In the last quarter of 2015, we began to sell to government related bodies and customers in a new market – Shenzhen. Shenzhen market will become a very important market of the Group. With the anticipated improvement of revenue and a strengthened customer portfolio, gross margin of the PE pipes business will definitely improve in the long term.



In view of the pressure on global economic downturn, the Board and management will be more careful and prudence in managing the operations of the Group. In the meantime, the Board has been exploring possible investing opportunities to increase the Company's value.

Potential disposal

On 22 July 2016, 寧國中基能源有限公司 (Ningguo China Primary Energy Limited[#]) as the vendor, a wholly-owned subsidiary of the Company, entered into a framework agreement with 安徽省皖能港華天然氣有限公司 (Anhui Wenergy Ganghua Natural Gas Limited[#]) as the purchaser in relation to the potential disposal of certain natural gas related assets. Further announcement will be made as when appropriate.

Bank Loan

On 2 November 2015, China Primary Energy (Shenzhen) Limited, a wholly-owned subsidiary of the Company (the "Borrower"), as borrower has entered into a loan agreement with China Construction Bank Corporation Limited – Shenzhen City Branch (the "Bank"), whereby the Bank has agreed to advance to the Borrower a medium term loan of RMB35,000,000 (the "Bank Loan") for a term of five years. The Bank Loan is secured by the shareholdings of two subsidiaries of the Company and certain properties of a director and a director's family member. Each of Ms. Ma Zheng, the Chairman of the Company, and the Company has also executed a guarantee in favour of the Bank to secure the obligations of the Borrower under the Bank Loan.

Financial review

Revenue was approximately HK\$105,060,000 for the six months ended 30 June 2016, which represented an increase of approximately 53% when compared with approximately HK\$68,495,000 in the corresponding period of last year. The Board believes that revenue of the Group will be further improved with the growing of the natural gas business and anticipated improvement of the manufacturing business.

For the six months ended 30 June 2016, unaudited loss before income tax was approximately HK\$24,424,000 (six months ended 30 June 2015: loss of approximately HK\$23,612,000). The loss attributable to owners of the Company was approximately HK\$25,006,000 (six months ended 30 June 2015: loss of approximately HK\$22,845,000). Significant loss is mainly due to insufficient revenue generated in the reporting period. In the current economic environment, the Board will continue to exercise stringent cost control and maintain a low and effective overheads structure and prudently utilise the Group's corporate resources to create wealth for the Shareholders.

Liquidity and financial resources

As at 30 June 2016, the Directors anticipated that the Group has adequate financial resources to meet its ongoing operations and future development.

Funding activities

The Company did not carry out any fund raising activities during the period under review.

Employee information


As at 30 June 2016, the Group has 7 full-time employees working in Hong Kong and 279 full-time employees working in the PRC respectively. The total of employee remuneration, including remuneration of the Directors, for the six months ended 30 June 2016 amounted to approximately HK\$21,203,000. 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 during the period under review.

Significant investments

Save as disclosed above, 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, the Group did not have any material acquisition and disposal of subsidiaries and affiliated companies during the six months ended 30 June 2016.

Segment information

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

Charge on group assets and contingent liabilities

During the period under review, save as disclosed above, the Group did not have any significant contingent liabilities and save as disclosed above, no other assets of the Group were pledged.

Gearing ratio

As at 30 June 2016, current assets of the Group amounted to approximately HK\$222,177,000 which included cash of approximately HK\$3,571,000 and approximately RMB19,856,000, while current liabilities stood at approximately HK\$150,187,000. The Group had borrowings of approximately HK\$39,972,000. Equity attributable to owners of the Company amounted to approximately HK\$340,515,000. In this regard, the Group was in a net assets position and had a gearing ratio was of approximately 11.7% (borrowings to equity attributable to owners of the Company) as of 30 June 2016.

Exposure to fluctuations in exchange rates

Sales and payment of the Group are denominated in Hong Kong dollars and Renminbi (“RMB”). The Group’s cash and bank deposit were mainly denominated in Hong Kong dollars and RMB, and the business is mainly operated in the PRC. The only foreign currency exposure comes mainly from the funds movement between Hong Kong and the PRC. With the anticipated stability of RMB, the Group’s foreign currency exposure was minimal for the period under review, except for certain material purchases. No hedging or other alternatives had been implemented for foreign currency exposure. However, the Group will continue to monitor closely the exchange rate movements and will enter into hedging arrangements in future if necessary.

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 2016, 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 interests set out below is based on 930,897,672 ordinary shares in issue as at 30 June 2016.

(i) Long position in the ordinary shares of HK\$0.0625 each in the Company as at 30 June 2016:

Name of Director	Number of ordinary shares held		Approximate percentage of interests
	Type of interests	Number of ordinary shares	
Ms. Ma Zheng	Beneficial	362,621,632	38.95%

(ii) Long position in the underlying shares or debentures of the Company as at 30 June 2016:

Name of Directors	Type of interests	Description of securities	Number of underlying shares	Approximate percentage of interests
Ms. Ma Zheng	Beneficial	Share Options (Note)	820,000	0.09%
Mr. Wong Pui Yiu	Beneficial	Share Options (Note)	3,500,000	0.38%
Mr. Wan Tze Fan Terence	Beneficial	Share Options (Note)	700,000	0.08%
Mr. Chung Chin Keung	Beneficial	Share Options (Note)	700,000	0.08%
Mr. Wang Xiao Bing	Beneficial	Share Options (Note)	700,000	0.08%

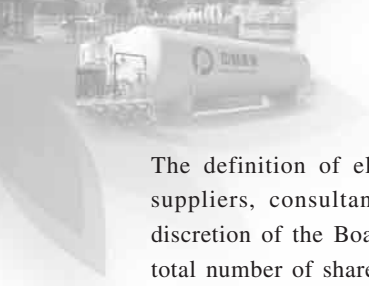
Note: On 10 April 2015, a total of 6,420,000 share options were granted to Directors as to 820,000 share options to Ms. Ma Zheng, as to 3,500,000 share options to Mr. Wong Pui Yiu, as to 700,000 share options to Mr. Wan Tze Fan Terence, as to 700,000 share options to Mr. Chung Chin Keung and as to 700,000 share options to Mr. Wang Xiao Bing. For further details of the share options granted, please refer to the announcement dated 10 April 2015 of the Company and under the heading “Share Option” below.

Save as disclosed above, as at 30 June 2016, 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 as recorded in the register 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 8 May 2012, a new share option scheme (the “Share Option Scheme”) was adopted by the shareholders of the Company. The purpose of the Share Option 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 Share Option Scheme, the Board may, at its discretion, grant share 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 share options granted and yet to be exercised under the Share Option Scheme and other schemes of the Company must not exceed 30% of the shares in issue from time to time. The Share Option Scheme will remain in force for a period of ten years commencing the date on which the scheme becomes unconditional.

The Share Option Scheme was adopted by the shareholders of the Company at the annual general meeting of the Company held on 8 May 2012.



The definition of eligible person in the Share Option Scheme include any suppliers, consultants, agents, advisors and distributors who, in the sole discretion of the Board, have contributed or may contribute to the Group. The total number of shares in respect of which share options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of approval of the Share Option Scheme, without prior approval from the Company's shareholders. The number of shares in respect of which share 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.

Where options are proposed to be granted to a connected person who is also a substantial shareholder or an independent non-executive Director or their respective associates and if such grant would result in the total number of shares issued and to be issued upon exercise of the share options granted and to be granted (including share options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant to such person representing in aggregate over 0.1% of the total issued shares and having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million, then the proposed grant must be subject to the approval of shareholders of the Company taken on a poll in a general meeting. All connected persons of the Company must abstain from voting at such general meeting.


The exercise price for shares under the Share Option Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a Business Day, (ii) the average of the closing prices of the shares as stated in the daily quotations sheets of the Stock Exchange for the five Business Days immediately preceding the date of grant; and (iii) the nominal value of the share on the date of grant. Any share options granted under the Share Option Scheme shall end in any event not later than ten years from the Commencement Date (as defined in the Share Option Scheme). A nominal value of HK\$1.00 is payable on acceptance of each grant of share options.

On 10 April 2015, share options of 81,720,000 were granted by the Company to certain individuals at exercise price HK\$0.87 per share.

As at 30 June 2016, total number of share options can be granted to qualified grantees or granted but not yet lapsed or cancelled were 170,109,767. As a result, 170,109,767 shares of the Company could be issued which represented about 18.27% of the issued share capital of the Company as at 30 June 2016 if all the share options were granted and exercised.

Details of the share options granted by the Company under the Share Option Scheme to eligible persons and movement in such holding during the period are as follows:

Name or category of participant	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options			Outstanding as at 30 June 2016
				Outstanding as at 1 January 2016	Granted during the period	Lapsed during the period	
Directors							
Ms. Ma Zheng	10 April 2015	1 April 2018 – 7 May 2022	0.87	820,000	-	-	820,000
Mr. Wong Pui Yiu	10 April 2015	1 April 2018 – 7 May 2022	0.87	3,500,000	-	-	3,500,000
Mr. Wan Tze Fan Terence	10 April 2015	1 April 2018 – 7 May 2022	0.87	700,000	-	-	700,000
Mr. Chung Chin Keung	10 April 2015	1 April 2018 – 7 May 2022	0.87	700,000	-	-	700,000
Mr. Wang Xiao Bing	10 April 2015	1 April 2018 – 7 May 2022	0.87	700,000	-	-	700,000
Sub-total				6,420,000	-	-	6,420,000
Others							
Employees	10 April 2015	1 April 2018 – 7 May 2022	0.87	72,200,000	-	(1,600,000)	70,600,000
Sub-total				72,200,000	-	(1,600,000)	70,600,000
Total				78,620,000	-	(1,600,000)	77,020,000



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 2016, 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 interests set out below is based on 930,897,672 ordinary shares in issue as at 30 June 2016.

(i) *Long position in the ordinary shares of HK\$0.0625 each in the Company as at 30 June 2016:*

Name of shareholders	Type of interests	Number of shares held	Approximate percentage of interests
Ms. Guo Xiuqin	Corporate	123,867,678	13.31%
Tung Shing Energy Investment Limited	Corporate	123,867,678	13.31%
Excel Sino Investments Limited	Beneficial (Note 1)	123,867,678	13.31%
Mr. Ji Shengzhi	Corporate	110,000,000	11.82%
Ms. Lu Ke	Corporate	110,000,000	11.82%
Ultra Vantage Holdings Limited	Beneficial (Note 2)	110,000,000	11.82%

Notes:

1. Excel Sino Investments Limited, a company incorporated in the British Virgin Islands with limited liability, is beneficially owned as to 80% by Tung Shing Energy Investment Limited, a company incorporated in the British Virgin Islands (which in turn is 100% beneficially owned by Ms. Guo Xiuqin), and as to the remaining 20% by an independent investor. Tung Shing Energy Investment Limited and Ms. Guo Xiuqin are deemed to be interested in these underlying shares under SFO.
2. Ultra Vantage Holdings Limited, a company incorporated in Samoa with limited liability, is jointly owned by Ms. Lu Ke and Mr. Ji Shengzhi. Ms. Lu Ke and Mr. Ji Shengzhi are deemed to be interested in these underlying shares under SFO.

(ii) *Long position in the underlying shares or debentures of the Company as at 30 June 2016:*

Name	Type of interests	Description of derivatives	Number of underlying shares	Approximate percentage of interests
Golden Peak Minerals Limited	Beneficial	Convertible Bonds in the principal amount of HK\$60,000,000 <i>(Note)</i>	60,000,000	6.45%



Note:

On 17 February 2015, the Company entered into the conditional subscription agreement with Golden Peak Minerals Limited (the “CB Subscriber”), pursuant to which the CB Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to issue the five-year 4.5% coupon unlisted convertible bonds in principal amount of HK\$60,000,000 (the “Convertible Bonds”). Golden Peak Minerals Limited is wholly-owned by Mr. He Xiaoyang, independent third party. Details are set out in the announcements dated 17 February 2015 and 8 April 2015 and the circular dated 11 March 2015 of the Company.

The Convertible Bonds were issued on 8 May 2015.

Save as disclosed above, as at 30 June 2016, 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

During the period under review, none of the Directors, significant shareholders, substantial shareholders and any of their respective associates had been engaged in any business that competed or might compete directly or indirectly, with the business of the Group, or had or might have any other conflicts of interest with the Group.

AUDIT COMMITTEE

The Company established an audit committee (the “Audit Committee”) with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The primary role and function of the Audit Committee, among other things, are to (i) review the financial controls, internal controls and risk management systems of the Group; (ii) review and monitor the external auditors’ independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and (iii) review the financial statements and the quarterly, interim and annual reports of the Group. During the period under review, the Audit Committee comprises three members, Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing who are the independent non-executive Directors of the Company. The Audit Committee has reviewed the Group’s unaudited results for the three months and six months ended 30 June 2016 and has provided advice and comments thereon.

REMUNERATION COMMITTEE

The remuneration committee of the Company (the “Remuneration Committee”) was established on 1 June 2005. The primary role and function of the Remuneration Committee is to consider and recommend to the Board on the Group’s remuneration policy and structure for the remuneration of all executive Directors and senior management and to review and determine the remuneration packages of the executive Directors and senior management. During the period under review, the Remuneration Committee comprises three members, Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing who are the independent non-executive Directors of the Company.



NOMINATION COMMITTEE

The nomination committee of the Company (the “Nomination Committee”) was established on 22 March 2012. The primary role and function of the Nomination Committee, among other things, are to (i) review the structure, size and composition of the Board at least once a year and make recommendations on any proposed changes to the Board to complement the Company’s corporate strategy; (ii) assess the independence of the independent non-executive Directors; and (iii) make recommendations to the Board on appointment and re-appointment of Directors. During the period under review, the Nomination Committee comprises three members, Mr. Wan Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing who are the independent non-executive Directors of the Company.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company had not redeemed any of its ordinary shares during the six months ended 30 June 2016. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company’s ordinary shares during the six months ended 30 June 2016.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company applied the principles and complied with the code provisions set out in the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 June 2016 save for the followings.

Code Provision A.2.1

Code Provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

During the period under review, the Group still did not have an officer with the title of “Chief Executive” (the “CE”). 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 CE. Ms. Ma Zheng, the Chairman, is also the director of the Company’s subsidiaries in the PRC. 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 the 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 Tze Fan Terence, Mr. Chung Chin Keung and Mr. Wang Xiao Bing. Except for Mr. Chung Chin Keung and Mr. Wang Xiao Bing who are appointed for a specific term of two years, Mr. Wan Tze Fan Terence is not appointed for specific terms. However, he is 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 Tze Fan Terence.



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 2016.

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

Hong Kong, 10 August 2016

For reference only

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. CHUNG Chin Keung and Mr. WANG Xiao Bing who are the independent non-executive Directors.