



CNRD

中國資源開發集團有限公司

China National Resources Development Holdings Limited



INTERIM
REPORT

2004

Interim Results

The board of directors (the "Board") of China National Resources Development Holdings Limited (the "Company") announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31 October 2004 with comparative figures for the previous corresponding period. The results have not been audited but have been reviewed by the Audit Committee of the Company.

Condensed Consolidated Profit and Loss Account

	Notes	Unaudited Six months ended 31 October	
		2004 HK\$'000	2003 HK\$'000
TURNOVER	2	9,913	1,811
Cost of sales		(19,562)	(1,470)
GROSS (LOSS)/PROFIT		(9,649)	341
Other revenue	3	1,106	—
General and administrative expenses		(11,414)	(3,356)
		(19,957)	(3,015)
Changes on fair values of short term investments		(19,739)	4,261
OPERATING (LOSS)/PROFIT	4	(39,696)	1,246
Finance costs		(999)	(678)
		(40,695)	568
Share of profits less losses of Jointly controlled entities		—	(2,626)
LOSS FROM OPERATING ACTIVITIES		(40,695)	(2,058)
Minority interests		208	—
LOSS ATTRIBUTABLE TO SHAREHOLDERS		(40,487)	(2,058)
Dividends	6	(6)	(12)
LOSS FOR THE PERIOD RETAINED		(40,493)	(2,070)
LOSS PER SHARE	7	HK cents	HK cents
Basic		(2.42)	(0.15)

Condensed Consolidated Balance Sheet

	<i>Notes</i>	Unaudited As at 31 October 2004 HK\$'000	Audited As at 30 April 2004 HK\$'000
NON-CURRENT ASSETS			
Fixed assets		357	274
Jointly controlled entities	8	—	—
TOTAL NON-CURRENT ASSETS		357	274
CURRENT ASSETS			
Short term listed investments		20,239	54,455
Loan and other receivables	9	53,865	182
Prepayments and deposits		1,176	490
Cash and bank balances		3,830	65,438
TOTAL CURRENT ASSETS		79,110	120,565
CURRENT LIABILITIES			
Subsidiary not consolidated		673	673
Temporary deposits, accounts payable and accruals	10	17,943	24,262
Dividend payable		506	500
TOTAL CURRENT LIABILITIES		19,122	25,435
NET CURRENT ASSETS		59,988	95,130
TOTAL ASSETS LESS CURRENT LIABILITIES		60,345	95,404
Minority interests		5,433	—
Convertible notes	11	20,000	20,000
		34,912	75,404
CAPITAL AND RESERVES			
Share capital	12	83,873	83,673
Reserves		(48,961)	(8,269)
		34,912	75,404

Condensed Consolidated Cash Flow Statement

	Unaudited Six months ended 31 October	
	2004 HK\$'000	2003 HK\$'000
Net cash used in operating activities	(67,035)	(2,934)
Net cash used in investing activities	(6)	(12)
Net cash from financing	5,433	2,106
Net decrease in cash and cash equivalents	(61,608)	(840)
Cash and cash equivalents at 30 April	65,438	1,565
Cash and cash equivalents at 31 October	3,830	725

Condensed Consolidated Statement of Changes in Equity

	Unaudited Six months ended 31 October	
	2004 HK\$'000	2003 HK\$'000
Balance at 1 May	75,404	6,317
Net loss for the period	(40,487)	(2,058)
Dividends	(6)	(12)
Exchange reserve	1	—
Conversion of preference shares	200	9,817
Premium on conversion of preference shares	(200)	(9,817)
Balance at 31 October	34,912	4,247

Notes to Financial Statements

1. Basis of Preparation and Principal Accounting Policies

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

2. Principal Activities and Segment Information

The Group's principal activities include securities trading and investments, property investment, property management and computer related services. An analysis of the Group's consolidated turnover and result by business segment and geographical location is as follows:

Business segments

	Turnover Six months ended 31 October		Segment results Six months ended 31 October	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Property investment and management consultancy	—	—	(10,514)	(3,025)
Corporate investment and financial services	9,913	1,811	(10,501)	(143)
Computer related services	—	—	(321)	—
	9,913	1,811	(21,336)	(3,168)
Change of fair values on short term listed investment			(19,739)	4,261
Unallocated costs less revenue			380	(525)
Operating (loss)/profit			(40,695)	568
Share of profits less losses of Jointly controlled entities			—	(2,626)
Losses from operating activities			(40,695)	(2,058)
Minority interests			208	—
Losses attributable to shareholders			(40,487)	(2,058)
Geographical Segments				
Hong Kong and Mainland China	9,913	1,811	(40,487)	(2,058)

3. Other Revenue

	Unaudited Six months ended 31 October	
	2004 HK\$'000	2003 HK\$'000
Interest income	1,106	—

4. Operating (loss)/profit

Operating loss is stated after crediting and charging the following:

	Unaudited Six months ended 31 October	
	2004 HK\$'000	2003 HK\$'000
Crediting:		
Interest income	1,106	—
Charging:		
Staff costs	4,135	1,105
Depreciation	47	6
Operating leases on land and buildings	238	304

5. Taxation

No provision for Hong Kong profits tax and overseas profits tax is made in the accounts as the Group has no assessable profit for the period.

6. Dividends

	Unaudited Six months ended 31 October	
	2004 HK\$'000	2003 HK\$'000
Preference dividend payable of HK\$0.151 per preference share on 41,990 preference shares (2003: HK\$0.151 on 79,990 preference shares)	6	12

Preference dividend is paid at 6% per annum on the notional value of HK\$5 per preference share to be paid half yearly on 30 June and 31 December in each year.

7. Loss Per Share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders after preference dividend for the six months ended 31 October 2004 of approximately HK\$40,493,000 (2003: HK\$2,070,000) and on the weighted average of 1,676,509,557 (2003: 1,345,203,852 ordinary shares) ordinary shares in issue during the period.

The diluted loss per share for both periods is not shown as the effect was anti-dilutive.

8. Jointly Controlled Entities

	Unaudited As at 31 October 2004 HK\$'000	Audited As at 30 April 2004 HK\$'000
Share of net liabilities	(69,990)	(69,990)
Amounts due from jointly controlled entities	136,311	136,311
Amounts due to jointly controlled entities	(20)	(20)
Provision for impairment losses	(66,301)	(66,301)
	—	—

9. Loan and other Receivables

	Unaudited As at 31 October 2004 HK\$'000	Audited As at 30 April 2004 HK\$'000
Loan receivables	51,368	—
Other receivables	2,497	182
	53,865	182

10. Temporary Deposits, Accounts Payable and Accruals

	Unaudited As at 31 October 2004 HK\$'000	Audited As at 30 April 2004 HK\$'000
Trade creditors	15,825	14,807
Temporary deposits, accruals and other payables	2,118	9,455
	17,943	24,262

The ageing analysis of trade creditors is as follows:

	Unaudited As at 31 October 2004 HK\$'000	Audited As at 30 April 2004 HK\$'000
0-3 months	410	9,363
Over 3 months	15,415	5,444
	15,825	14,807

11. Convertible Notes

The convertible notes (the "Convertible Notes") in an aggregate principal amount of HK\$20,000,000 are to be matured on the third anniversary date from the date of 16 December 2002 on which they were issued by the Company. The Convertible Notes bear interest at the rate of 2% per annum payable semi-annually in arrears. The whole of the principal amount of each Convertible Note of HK\$1,000,000 is convertible into ordinary shares of the Company at the option of the holder of Convertible Notes at the conversion price, being the lower of the fixed conversion price of HK\$0.05 per share subject to the adjustment or the floating conversion price as defined in the terms of the Convertible Notes.

The holder of Convertible Notes also has the right at any time to require the Company to redeem the whole or part of the outstanding amount of the Convertible Notes at 125% of the face value of the outstanding amount, together with interest accrued on the condition that the closing price per ordinary share of the Company falls below 35% of the fixed conversion price for a period of 15 consecutive trading days following the date of issue of the Convertible Notes.

12. Share Capital

	Ordinary shares of HK\$0.05 each ("Ordinary Shares")		6% convertible cumulative redeemable preference shares of HK\$1 each ("CPS")		Total HK\$'000
	Number of shares	HK\$'000	Number of shares	HK\$'000	
<i>Authorised:</i>					
At 30 April 2004 and at 31 October 2004	4,000,000,000	200,000	100,000,000	100,000	300,000
<i>Issued and fully paid:</i>					
At 30 April 2004	1,671,862,818	83,593	79,990	80	83,673
Conversion of CPS	4,750,000	238	(38,000)	(38)	200
At 31 October 2004	1,676,612,818	83,831	41,990	42	83,873

(a) CPS

A holder of the CPS is entitled to receive a fixed cumulative preferential dividend at the rate of 6% per annum on the notional value of HK\$5 per CPS to be paid half-yearly on 30 June and 31 December in each year.

A holder of the CPS may convert his shares held at any time into Ordinary Shares at the conversion price of HK\$0.04 per share, subject to adjustment.

The CPS may be redeemed by the holders of the CPS at any time after 30 June 1996 at a redemption price per share equal to the notional value plus accrued dividend.

12. Share Capital (Continued)

(a) CPS (Continued)

The Company has the option to redeem all or some of the CPS at any time at the notional value of the CPS if the average of the closing prices of the Ordinary Share quoted on the Stock Exchange over the preceding 30 consecutive dealing days ending on the seventh day prior to the date upon which notice of redemption is given is greater than or equal to 150% of the conversion price in effect on such seventh day.

(b) Issue of Ordinary Shares upon conversion of CPS at the conversion price of HK\$0.04 took place as follows:

Date of conversion	No. of CPS of HK\$1 each converted	No. of new Ordinary Shares issued upon conversion
4 May 2004	38,000	4,750,000

Upon completion of the above conversion, convertible preference share reserve is reduced by an aggregate amount of HK\$47,500 on the basis that the conversion price of CPS of HK\$0.04 is lower than the nominal value of each Ordinary Share of HK\$0.05 each. Furthermore, the issue of Ordinary Shares upon conversion reduced the share premium account by an aggregate amount of HK\$152,000.

13. Contingent Liabilities

The Company entered into letters of guarantee with financial creditors to provide an unlimited corporate guarantee and an aggregate amount not exceeding HK\$10,000,000 to its wholly-owned subsidiaries to secure a general facilities granted to them.

14. Commitments Under Operating Leases

At 31 October 2004, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Unaudited 31 October 2004 HK\$'000	Audited 30 April 2004 HK\$'000
Land and buildings		
— within one year	1,247	1,210
— after one and within five years	181	809
	1,428	2,019

15. Capital Commitments

The Group entered into agreements with third parties to establish joint ventures in which the Group will invest approximately HK\$66 million to engage in manufacturing and trading of recycled materials, to develop business of provision of computer related services and to undertake the project on the implementation of the national products and services coding system promulgated and enforced by the PRC government.

16. Subsequent Events

On 24 November 2004, Smartgood Investments Limited ("Smartgood"), the controlling shareholder of the Company, which is wholly owned by Mr. Zhou Weirong, the Chairman of the Company, had disposed the Convertible Notes in the aggregate principal amount of HK\$10,000,000 to third parties ("New Noteholders"). Immediate following the disposal of the Convertible Notes from Smartgood, the New Noteholders exercised the right to convert the Convertible Notes into Ordinary Shares at the conversion price of HK\$0.05 per share. An aggregate of 200,000,000 new Ordinary Shares were allotted and issued to the New Noteholders, credited as fully paid. After the conversion, the outstanding balance of the Convertible Notes was reduced to HK\$10,000,000.

Interim Dividend

The Board has resolved not to declare any interim dividend for the six months ended 31 October 2004 (2003: Nil).

Management Discussion and Analysis

The turnover of the Group for the six months ended 31 October 2004 amounted to approximately HK\$9,913,000 (2003: HK\$1,811,000), representing an increase of 447% as compared to the same period last year. The increase was mainly attributable to the increase in trading of listed securities on the Hong Kong Stock Exchange.

During the period under review, the loss attributable to shareholders amounted to approximately HK\$40,487,000 (2003: loss of HK\$2,058,000). The loss was mainly due to loss arising from the short term investment in listed securities. It resulted in gross loss of HK\$9,649,000 (2003: profit of HK\$341,000) and unrealized loss of HK\$19,739,000 (2003: profit of HK\$4,261,000) respectively. The administrative expenses were increased by HK\$8,058,000 to HK\$11,414,000 as compared to HK\$3,356,000 of last corresponding period. The primary reason for the increase is due to the preliminary expenses for the three new business projects namely "Recycling Business", "Instant Result Type Online Lottery Business" and "National Products and Services Coding System Business".

Business Review

Short Term Investment in Listed Securities

During the period under review, short term investment in listed securities remained the primary operation of the Group. The short term investment in listed securities amounted to approximately HK\$9,913,000 representing an increase of 447% as compared to HK\$1,811,000 of last corresponding period. However, the share prices of some of the investment securities continued to fall from the beginning of the fiscal year, resulting a gross loss of approximately HK\$9,649,000 and an unrealized loss of HK\$19,739,000 for the period under review.

The situation has been improved and the unrealized loss has been reduced since November 2004. It is expected that operating results of this business segment will be better off in the second half of the financial year. Moreover, the Group will take a more cautious approach to operate this business in the future.

Properties Investment

The Group does not have any other property investment other than the investment project holding the commercial complex in Malaysia. During the period under review, no revenue were rendered from the Malaysia project, as a result, the Group did not record any revenue from property investment and management service. But the Group will continue to look into attractive opportunity of property investment for the future development of this business.

Recycling Business

After several months of discussion and negotiation between our joint venture partner and the PRC authorities, the joint venture was incorporated on 27 October 2004. The joint venture partner "China Chengtong Holdings Company" has intention to inject its good quality recycling businesses into the joint venture at the appropriate time in future. The joint venture is planning to commence operation by establishing processing zones for recycling certain wastes to marketable materials. In the second half of this fiscal year, the joint venture will focus on recycling scrapped fish net and soft drink bottles. In the future, the joint venture will further diversify into other recycling businesses such as oil sand, electronic products, paper and wood.

Instant Result Type Online Lottery Business

The joint venture was incorporated on 28 July 2004. Its business scope involves the business of development of computer hardware, software and networking system and system integration for instant result type online lottery in the PRC. Currently, the joint venture is working with one of the world's largest producers of video lottery device and system to design a set of video lottery device with integrated system support that fits the PRC market, and aims to become the largest suppliers of video lottery device with integrated system support in the PRC.

Business Review *(Continued)*

National Products and Services Coding System Business

The joint venture was incorporated on 30 July 2004. Its business scope is to undertake the "coding system project", a project which is promulgated and enforced by the PRC government to assign and register a particular code for each model of product and service circulated in the PRC. The primary task of the joint venture is to formulate a plan to establish branches across the country and set up a nationwide computer network to carry out the coding service. The task is being carried out according to schedule.

Liquidity and Capital Resources

As at 31 October 2004, the Group had current assets approximately HK\$79,110,000, current liabilities approximately HK\$19,122,000 and long term liability comprising of convertible notes of HK\$20,000,000. The current ratio stands at 4.1.

The Group's unaudited net asset value as at 31 October 2004 was approximately HK\$34,912,000.

On 4 May 2004, 38,000 convertible preference shares (par value HK\$1.00 each) were converted into 4,750,000 new ordinary shares (par value HK\$0.05 each) of the Company.

Other than the pledge of the commercial complex in Malaysia to the bank consortium by the jointly controlled entities for obtaining the syndicated bank loan, the Group has also pledged to the financial institutions its investment in listed securities amounting to approximately HK\$20,239,000 for securities margin financing as at 31 October 2004.

Foreign Exchange Exposure

Other than the property investment in Malaysia, the Group's cash balance and other current assets are denominated in Hong Kong Dollars. Nonetheless, the effect of the exchange rate on the Group's cash flow is minimal.

Contingent liabilities

The Group has no contingent liabilities as the 31 October 2004.

Prospect

Our company name was successfully changed from “Tem Fat Hing Fung (Holdings) Limited” to “China National Resources Development Holdings Limited” on 18 October 2004 which marked a new era for the Group. The Directors believe the new name will properly reflect the business strategy of the Group to diversify its business into other sectors, in particular, the “Recycling Business”. Other than the existing businesses in short term investment in listed securities and property investment, the Group will continue to develop other businesses, such as “Recycling Business”, “Instant Result Type Online Lottery Business” and “National Products and Services Coding System”.

Continuous robust economic growth in the PRC drives up the growth rate of natural resources requirements. The natural resource is scarce in supply and may adversely affect the future economic growth. In addition, volume of industrial waste and household waste disposed without proper treatment is increasing year after year, which brings out different form and extent of environmental issues. To tackle the above problems, the PRC government encourages the recycling of industrial and household wastes which after proper processing will turn into materials suitable for industrial use. This will not only resolves some of the environmental issues, but also helps to improve the efficiency of resource utilization and minimize the negative impact on economic growth as a result of tight resources supply. To emphasise the significance in developing the “Waste Recycling Industry”, the PRC government has placed this issue on “The Eleventh Five-Year Plan for National Economy and Social Development” and is considering to formulate appropriate policies, laws and regulations to promote the development of this industry.

With the assistance from our joint venture partner who is now engaging in the “Recycling Business”, the Directors believe that the joint venture running “Recycling Business” will commence its operation in the second half of this financial year and will be the first new business making income contribution to the Group. The Directors believe this diversifying business strategy is in the best interest of the shareholders and the Company.

Employment, Training and Remuneration Policy

As at 31 October 2004, the Group had a total of 27 employees. The remuneration packages consist of basic salary, mandatory provident fund, medical insurance, and other benefits considered as appropriate. Remuneration packages are generally structured by reference to market terms, individual qualification and the performance of individual staff. They are under periodic review based on individual merit and other market factors.

Directors' and Chief Executives' Interests in Securities

As at 31 October 2004, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any 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 under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Long positions in shares of the Company

Name of Director	Type of interests	Interests in ordinary shares	Approximate percentage of total issued ordinary shares	Interests in underlying shares/ debentures	Approximate percentage of total issued ordinary shares
Mr. Zhou Weirong	Corporate	1,138,879,164 (Note 1)	67.93%	403,875,000 (Note 2)	24.09%
Mr. Li Qiao Feng	Personal	330,000	0.02%	—	—

Notes:

- The interests in 1,138,879,164 ordinary shares of HK\$0.05 each ("Shares") are held by Smartgood Investments Limited ("Smartgood"), a company incorporated in the British Virgin Islands with limited liability and wholly and beneficially owned by Mr. Zhou Weirong.
- The interests in 403,875,000 underlying Shares represent the interests in (a) 31,000 6% convertible redeemable preference shares of the Company ("CPS") of par value of HK\$1.00 each with notional value of HK\$5.00 each which are convertible into 3,875,000 Shares at the adjusted conversion price of HK\$0.04 each; and (b) HK\$20,000,000 2% convertible notes due 2005 ("Convertible Notes") which are convertible into 400,000,000 Shares at the conversion price of HK\$0.05 (subject to adjustment), both are held by Smartgood.

Save as disclosed above, none of the Directors, chief executives or their associates had any interests and short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations as defined in Part XV of SFO as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' and Chief Executives' Interests in Securities (Continued)

Directors' Rights to Acquire Shares or Debt Securities

At no time during the period was the Company or any of its subsidiaries, its holding company, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any or its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other corporate.

Share Options

The share option scheme of the Company adopted on 27 October 1998 had been terminated and simultaneously a new share options scheme ("New Scheme") had been approved and adopted at the annual general meeting of the Company held on 13 October 2003. Details of the New Scheme are set out in the circular of the Company dated 19 September 2003. The movements in the share options granted under the New Scheme during the period are as follows:

Category of Participants	Exercise price (HK\$)	Date of Grant	Exercisable period	Number of Share Options				At 31 October 2004
				At 1 May 2004	Granted during the period	Exercised during the period	Cancelled during the period	
Consultants								
In aggregate	0.461	13 February 2004	13 February 2004 to 12 February 2014	128,811,280	—	—	128,811,280	—
In aggregate	0.32	16 September 2004	16 September 2004 to 15 September 2014	—	152,186,280	—	—	152,186,280

During the period under review, an aggregate of 152,186,280 share options were granted under the New Scheme to certain consultants of the Company on 16 September 2004. The closing price of the Shares of the Company on 9, 10, 13 14 and 15 September 2004, being the five trading days preceding the date of grant to the said options were HK\$0.345, HK\$0.32, HK\$0.315 and HK\$0.31 respectively. The Directors considered it is inappropriate to value the share options granted during the period as a number of factors crucial for the valuation cannot be determined accurately. Any valuation of the share options based on various uncertain and speculative assumptions could be misleading to the shareholders of the Company.

Substantial Shareholders' Interests in Securities

As at 31 October 2004, so far as is known to the Directors, the following persons (other than the Directors and chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the required to be kept under Section 336 of the SFO.

Substantial Shareholders' Interests in Securities (Continued)

Long positions in shares of the Company

Name of shareholder	Type of interests	Interests in Shares	Approximate percentage of total issued ordinary shares	Interests in underlying Shares	Approximate percentage of total issued ordinary shares
Smartgood	Beneficial Owner	1,138,879,164	67.93%	403,875,000	24.09%

Note: The interest has been disclosed in the above section headed "Directors' Interests in Securities".

Save as disclosed above, the Directors are not aware of any other persons who have interests or short positions in the shares, underlying shares of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under section 336 of the SFO.

Purchase, Sale and Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities during the six months ended 31 October 2004.

Compliance with the Code of Best Practice

In the opinion of the Directors, the Company has complied with the Code of Best Practice ("Code of Best Practice") as set out in Appendix 14 of the Listing Rules throughout the period under review except that the independent non-executive directors of the Company are not appointed for a specific term as required by paragraph 7 of the Code of Best Practice, but are subject to retirement by rotation in accordance with the Company's Bye-Laws.

Audit Committee

The Company established an Audit Committee in accordance with the requirements of the Code of Best Practice for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee consists of three independent non-executive directors, namely Mr. Wong Ki Kit (being the chairman), Mr. Chen Baoying and Mr. Li Xin. The Audit Committee has reviewed the unaudited interim financial statements for the six months ended 31 October 2004.

By Order of the Board
China National Resources Development Holdings Limited
Zhou Weirong
Chairman

Hong Kong, 28 January 2005