



APAC RESOURCES

APAC RESOURCES LIMITED

亞太資源有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 1104)

2007
Interim Report

Contents

Corporate Information	2
Condensed Consolidated Income Statement	4
Condensed Consolidated Balance Sheet	5
Condensed Consolidated Statement of Changes in Equity	6
Condensed Consolidated Cash Flow Statement	7
Notes to the Condensed Financial Statements	8
Independent Review Report	27
Management Discussion and Analysis	29
Other Information	34

BOARD OF DIRECTORS

Executive Directors:

Mr. Cao Zhong (*Chairman*)

Mr. Liu Yongshun (*Chief Executive Officer*)

(appointed on 29 May 2007 as
Non-Executive Director and
redesignated as Executive Director
and Chief Executive Officer
on 27 July 2007)

Mr. Zhou Luyong (*Deputy Chief Executive Officer*)

(appointed on 29 May 2007 as
Non-Executive Director and
redesignated as Executive Director
and Deputy Chief Executive Officer
on 27 July 2007)

Ms. Chong Sok Un

(appointed on 6 July 2007)

Mr. Lau Yau Cheung

Mr. Chen Zhaoqiang

(appointed on 6 July 2007
as Non-Executive Director and
redesignated as Executive Director
on 7 September 2007)

Mr. Yue Jialin

Independent Non-Executive Directors:

Mr. Wong Wing Kuen, Albert

Mr. Tsui Robert Che Kwong

Mr. Chang Chu Fai, Johnson Francis
(appointed on 6 July 2007)

Mr. Alan Stephen Jones

(appointed on 27 July 2007)

Mr. Robert Moyse Willcocks

(appointed on 27 July 2007)

Mr. Yang Weiming

(resigned on 27 July 2007)

AUDIT COMMITTEE & REMUNERATION COMMITTEE

Mr. Wong Wing Kuen, Albert
Mr. Tsui Robert Che Kwong
Mr. Chang Chu Fai, Johnson Francis
(appointed on 6 July 2007)
Mr. Alan Stephen Jones
(appointed on 27 July 2007)
Mr. Robert Moyse Willcocks
(appointed on 27 July 2007)
Mr. Yang Weiming
(resigned on 27 July 2007)

COMPANY SECRETARY

Mr. To Yung Kan

AUDITORS

Graham H.Y. Chan & Co

LEGAL ADVISERS

P.C. Woo & Co
Robertsons
Conyers Dill & Pearman

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

32/F China Online Centre
333 Lockhart Road
Wanchai
Hong Kong
Tel: +852 2541 0338 Fax: +852 2541 9133

WEBSITE

www.irasia.com/listco/hk/apac/index.htm

STOCK CODE

1104

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services
(Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
26/F Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

The board of directors (the “**Board**”) of APAC Resources Limited (the “**Company**”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively as the “**Group**”) for the six months ended 30 June 2007, which has been reviewed by the auditors of the Group and the audit committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

		Six months ended 30 June	
		2007	2006
<i>Notes</i>		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Turnover	3	18,725	5,788
Cost of sales		(18,188)	(5,774)
Gross profit		537	14
Gain on disposal of a subsidiary	4	1,536	—
Gain on disposal of available-for-sale investments		16,535	—
Unrealised gain on trading securities		141,022	—
Other income		1,044	183
Administrative expenses	5	(10,448)	(5,331)
Finance costs		(8,089)	(958)
Profit/(loss) before taxation		142,137	(6,092)
Taxation	6	—	(2)
Profit/(loss) for the period		142,137	(6,094)
Earnings/(loss) per share	7		
- Basic		4.99 HK cents	(1.48) HK cents
- Diluted		4.78 HK cents	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2007



		30 June 2007	31 December 2006
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(audited)
Non-current assets			
Property, plant and equipments	8	1,420	—
Available-for-sale investments	9	1,189,787	—
Deposit for acquisition of available-for-sale investment		—	20,000
		<u>1,191,207</u>	<u>20,000</u>
Current assets			
Inventories		1,427	1,494
Trade and other receivables	10	5,940	8,460
Trading securities	11	368,564	227,039
Pledged bank deposits	21	10,300	10,098
Cash and cash equivalents	18	19,190	12,282
		<u>405,421</u>	<u>259,373</u>
Current liabilities			
Trade and other payables	12	11,411	7,585
Secured other loan	13	148,980	—
Margin financing loan	14	68,380	141,612
Tax payable		187	200
		<u>228,958</u>	<u>149,397</u>
Net current assets		<u>176,463</u>	<u>109,976</u>
Total assets less current liabilities		<u>1,367,670</u>	<u>129,976</u>
Capital and reserves			
Share capital	15	335,906	125,900
Reserves		1,031,764	4,076
Total equity attributable to equity holders of the Company		<u>1,367,670</u>	<u>129,976</u>
Minority interests		—	—
Total equity		<u>1,367,670</u>	<u>129,976</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007



	Share capital	Share premium account	Special reserve	Investment revaluation reserve	Share option reserve	Retained earnings/ (accumulated losses)	Total
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
At 1 January 2006	41,300	106,957	(14,980)	—	—	(111,396)	21,881
Loss for the period	—	—	—	—	—	(6,094)	(6,094)
At 30 June 2006	41,300	106,957	(14,980)	—	—	(117,490)	15,787
At 1 January 2007	125,900	105,470	(14,980)	—	—	(86,414)	129,976
Issue of right shares, net	125,900	248,778	—	—	—	—	374,678
Issue of placing shares for cash, net	80,000	149,800	—	—	—	—	229,800
Issue of shares upon exercise of warrants	4,106	8,212	—	—	—	—	12,318
Changes in fair value of available-for-sale investments	—	—	—	477,828	—	—	477,828
Share option scheme	—	—	—	—	933	—	933
Profit for the period	—	—	—	—	—	142,137	142,137
At 30 June 2007	335,906	512,260	(14,980)	477,828	933	55,723	1,367,670

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007



	Six months ended 30 June	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Net Cash From		
Operating Activities	8,654	31,780
Net Cash (Used In)/From		
Investing Activities	(692,463)	2,181
Net Cash From/(Used In)		
Financing Activities	690,717	(15,000)
	<hr/>	<hr/>
Net Increase in Cash and		
Cash Equivalents	6,908	18,961
Cash and Cash Equivalents at 1 January	12,282	1,465
	<hr/>	<hr/>
Cash and Cash Equivalents at 30 June	19,190	20,426
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash		
equivalents		
Bank balances and cash	19,159	20,426
Cash held in a securities account maintained in a securities company	31	—
	<hr/>	<hr/>
	19,190	20,426
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2007



1. General

The Company is incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the address of its principal office in Hong Kong is 32/F., China Online Centre, 333 Lockhart Road, Wanchai, Hong Kong.

The Company and its subsidiaries (collectively referred to as “the Group”) are principally engaged in the (i) trading in base metals and commodities trading portfolio primarily focused on natural resources and related sectors; and (ii) trading in fabric products and other merchandises with investment in the resources and related industries and listed securities as trading portfolio.

These condensed consolidated interim financial statements (the “Interim Financial Statements”) are presented in Hong Kong dollars (“HK\$”), which is the Company’s functional and presentation currency. These Interim Financial Statements were approved for issue by the Board on 7 September 2007.

2. Basis of Preparation and Accounting Policies

These unaudited Interim Financial Statements are prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

These Interim Financial Statements should be read in conjunction with the 2006 annual report.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2006 annual report. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statement prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”, which term collectively includes HKASs and Interpretations).

2. Basis of Preparation and Accounting Policies (Continued)

In the current period, the Group has applied, for the first time, the following new standards, amendments and interpretations (hereinafter collectively referred to as “new HKFRSs”), issued by the HKICPA, which are effective for the Group’s accounting periods beginning on 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: disclosures ¹
HK(IFRIC) – Int 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies ²
HK(IFRIC) – Int 8	Scope of HKFRS 2 ³
HK(IFRIC) – Int 9	Reassessment of embedded derivatives ⁴
HK(IFRIC) – Int 10	Interim financial reporting and impairment ⁵

1 Effective for annual periods beginning on or after 1 January 2007

2 Effective for annual periods beginning on or after 1 March 2006

3 Effective for annual periods beginning on or after 1 May 2006

4 Effective for annual periods beginning on or after 1 June 2006

5 Effective for annual periods beginning on or after 1 November 2006

The application of these new HKFRSs did not have any material impact on how the financial statements of the Group are prepared and presented for the current or prior accounting period.

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the financial statements of the Group.

HKAS 23 (Revised)	Borrowing costs ¹
HKFRS 8	Operating segments ¹
HK(IFRIC) – Int 11	HKFRS 2 – group and treasury share transactions ²
HK(IFRIC) – Int 12	Service concession arrangements ³

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 March 2007

3 Effective for annual periods beginning on or after 1 January 2008

3. Segment Information

Business segments

For management purposes, the Group is currently organised into three operating divisions – trading in base metals, trading in fabric products and other merchandises and trading and investment of listed securities. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Six months ended 30 June 2007

	Trading in base metals HK\$'000	Trading in fabric products and other merchandises HK\$'000	Trading and investment of listed securities HK\$'000	Consolidated HK\$'000
Turnover				
External sales	—	18,725	—	18,725
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Results				
Segment profit	—	557	157,557	158,114
	<u> </u>	<u> </u>	<u> </u>	
Unallocated corporate expenses				(9,424)
Gain on disposal of a subsidiary				1,536
Finance costs – interest on other loans				(8,089)
				<u> </u>
Profit before taxation				142,137
Taxation				—
				<u> </u>
Profit for the period				<u>142,137</u>

3. Segment Information (Continued)

Six months ended 30 June 2006

	Trading in base metals HK\$'000	Trading in fabric products and other merchandises HK\$'000	Trading and investment of listed securities HK\$'000	Consolidated HK\$'000
Turnover				
External sales	5,788	—	—	5,788
	<u>5,788</u>	<u>—</u>	<u>—</u>	<u>5,788</u>
Results				
Segment profit	15	65	—	80
	<u>15</u>	<u>65</u>	<u>—</u>	<u>80</u>
Unallocated corporate expenses				(5,214)
Finance costs – interest on other loans				(958)
				<u>(6,172)</u>
Loss before taxation				(6,092)
Taxation				(2)
				<u>(6,094)</u>
Loss for the period				<u>(6,094)</u>

3. Segment Information (Continued)

Geographical segments

The following tables provide an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Hong Kong	7,240	5,788
South East Asia	988	—
United States of America	2,049	—
Africa	8,448	—
	18,725	5,788
	18,725	5,788

4. Gain on Disposal of a Subsidiary

Pursuant to an option agreement dated 14 June 2006, Rise Cheer Limited, a wholly owned subsidiary of the Company exercised the put option against Professional Trading Limited for the 60% interest in Chinairight Electronics Limited.

	HK\$'000
Net liabilities disposed of :	
Inventories	1,494
Bank balance and cash	23
Trade and other payables	(2,253)
	(736)
Net liabilities	(736)
Gain on disposal	1,536
	800
Consideration received – cash	800

4. Gain on Disposal of a Subsidiary (Continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposals of a subsidiary is as follows:

	HK\$'000
Cash consideration	800
Cash and cash equivalents disposed of	(23)
	<hr/>
Net inflow of cash and cash equivalents	777
	<hr/> <hr/>

5. Administrative Expenses

	Six months ended 30 June	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Administrative expenses include the following:		
Depreciation and amortisation	26	—
Legal and professional fees	3,201	3,133
Retirement benefits scheme contributions, net of nil forfeited contributions	46	37
Staff costs, including directors' emoluments	2,726	843
— salaries and allowance	1,793	843
— expenses in relation to the grant of share options (note 16 – note (1))	933	—

6. Taxation

No Hong Kong profits tax has been provided for as the Group had no assessable profit for the six months ended 30 June 2007 (six months period ended 30 June 2006: nil).

The Group had no significant unprovided deferred taxation at the balance sheet date.

7. Earnings/(Loss) Per Share

- (a) The calculation of the basic earnings/(loss) per share is based on the profit for the period of approximately HK\$142,137,000 (2006: loss of HK\$6,094,000) and on the weighted average of 2,850,853,386 (2006: 413,000,000) shares in issue during the period.
- (b) The calculation of diluted earnings per share for the six-months period ended 30 June 2007 is based on the profit for the period and number of shares as used in the basic earnings per share calculation, adjusted for 124,284,222 shares assumed to have been issued since 5 February 2007 throughout the period ended 30 June 2007, at no consideration on the deemed exercise of all warrants. The share options do not have dilutive effect because the exercise price of the options exceeds the average market price of ordinary shares during the six months period ended 30 June 2007.

Diluted loss per share had not been presented for the six-month period ended 30 June 2006 as there were no potential dilutive shares outstanding during the period.

8. Property, Plant and Equipments

During the period, the Group's acquisition of property, plant and equipments amounted to HK\$1,446,000 (six months ended 30 June 2006 : nil).

9. Available-for-sale Investments

	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Listed equity securities, in overseas	<u>1,189,787</u>	<u>—</u>

10. Trade and Other Receivables

The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Trade receivables		
0 to 30 days	2,097	3,076
31 to 60 days	988	2,048
61 to 90 days	2,142	2,124
91 to 365 days	—	418
Over 365 days	—	130
	<u>5,227</u>	<u>7,796</u>
Other receivables	<u>713</u>	<u>664</u>
	<u>5,940</u>	<u>8,460</u>

11. Trading Securities

	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Trading securities, at fair value		
Listed equity securities, in Hong Kong	1,839	1,810
Listed equity securities, in overseas	366,725	225,229
	<u>368,564</u>	<u>227,039</u>

12. Trade and Other Payables

The following is an aged analysis of trade payables at the balance sheet date:

	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Trade payables		
0 to 30 days	3,469	—
31 to 60 days	963	—
61 to 90 days	2,085	—
91 to 365 days	—	192
Over 365 days	—	1,754
	<hr/>	<hr/>
	6,517	1,946
Other payables	4,894	5,639
	<hr/>	<hr/>
	11,411	7,585
	<hr/> <hr/>	<hr/> <hr/>

13. Secured Other Loan

The loan is secured by corporate guarantee from the Company and the issued share of a wholly owned subsidiary and is due on 18 April 2008. The effective interest rate of the loan at 30 June 2007 is 9.897%. Subsequent to the balance sheet date, the loan was fully repaid on 20 August 2007.

14. Margin Financing Loan

The margin financing loan facilities were secured by part of available-for-sale investments and trading securities with carrying amount of approximately HK\$1,333,552,000 as at 30 June 2007 (31 December 2006 (audited) HK\$225,229,000).

15. Share Capital

	Number of ordinary shares of HK\$0.10 each	Amount HK\$'000
Authorised:		
At 1 January 2007	2,000,000,000	200,000
Increase during the period	6,000,000,000	600,000
	<u>8,000,000,000</u>	<u>800,000</u>
At 30 June 2007		
	<u>8,000,000,000</u>	<u>800,000</u>
Issued and fully paid:		
At 1 January 2007	1,259,000,000	125,900
Issue of right shares	1,259,000,000	125,900
Issue of shares for placing	800,000,000	80,000
Issue of shares upon exercise of warrants	41,061,163	4,106
	<u>3,359,061,163</u>	<u>335,906</u>
	<u>3,359,061,163</u>	<u>335,906</u>

Details of the changes in the Company's share capital during the period ended 30 June 2007 are as follows :

- (a) Pursuant to an ordinary resolution passed on 4 January 2007, the authorised share capital of the Company was increased to HK\$800 million by the creation of 6,000 million shares of HK\$0.1 each.
- (b) The Company completed a rights issue on 1 February 2007, which raised gross proceeds of HK\$377.7 million by issuing 1,259 million rights shares at HK\$0.3 each. As a result of the rights issue, a total of 251,800,000 bonus warrants were allotted and issued. The bonus warrants will be exercisable for a period of three years commencing on 5 February 2007 to 4 February 2010.
- (c) On 28 February 2007, the Company completed a placing of 800 million new shares at the price of HK\$0.3 per share, which raised gross proceeds of HK\$240 million.

16. Share Option Scheme

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives or rewards to selected persons (including the Company’s directors, employees of the Group and other eligible participants as defined under the Scheme) who contribute to the Group. The Scheme was adopted on 22 September 2004 and will remain in force for 10 years from the date of adoption until 21 September 2014.

Pursuant to the annual general meeting of the Company held on 25 May 2007, the mandate limit of the Scheme was refreshed to 332,570,916 shares. Movement of the Company’s share options under the Scheme during the period are as follows:

Name of Director	Number of share options				
	As at 1 January 2007	Granted during the period	Exercised during the period	Lapsed during the period	As at 30 June 2007
Mr. Cao Zhong (Note 1)	—	33,000,000	—	—	33,000,000
Mr. Zhou Luyong (Note 1 and 2)	—	33,000,000	—	—	33,000,000

Notes :

- (1) The share options were granted on 29 May 2007 with an exercise price of HK\$1.20 per share and exercisable for the period from 29 May 2007 to 28 May 2010. The closing price of the Company’s shares on 29 May 2007, the date of the grant of share options, was HK\$1.14.

The option is measured using the Binomial Pricing Model with the following variables:

Closing share price at date of grant	HK\$1.14
Risk free rate (being the yield of 3-year Exchange Fund Notes)	4.244% as at 29 May 2007
Expected volatility	66%
Expiration of the share options	3 years from 29 May 2007

16. Share Option Scheme (*Continued*)

The volatility measured at the standard deviation of expected share price is based on statistical analysis of daily share prices over the period from the date trading of the Company's shares was resumed (i.e. 14 July 2006) to the date immediately preceding the grant date.

The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the share options and the historical volatility of the company shares set out above.

The Group recognised total expenses of HK\$933,000 related to share option payment transactions during the six months period ended 30 June 2007.

- (2) The exercise of share options granted to Mr. Zhou is conditional upon his redesignation to become Executive Director and Deputy Chief Executive Officer of the Company, which has been effective from 27 July 2007.

17. Warrants

On 5 February 2007, the Company issued a total of 251,800,000 bonus warrants ("2010 Warrants"), as a result of the rights issue completed on 1 February 2007, with an aggregate subscription amount of HK\$75,540,000. The holders of the 2010 Warrants are entitled to subscribe for ordinary shares of the Company at an exercise price of HK\$0.30 per share at any time during 5 February 2007 to 4 February 2010. As at 30 June 2007, 41,061,163 ordinary shares of HK\$0.1 each were issued upon the exercise of 2010 Warrants and the Company had 210,738,837 warrants outstanding, with an aggregate subscription amount of HK\$63,221,651.10.

18. Cash and Cash Equivalents

	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Pledged bank deposits	10,300	10,098
Short-term bank deposits	18,422	—
Cash at bank and in hand	737	9,421
Cash held in a securities account maintained in a securities company	31	2,861
	29,490	22,380
Less : Pledged bank deposits	(10,300)	(10,098)
Cash and cash equivalents	19,190	12,282

19. Commitments

- (a) Operating lease – the Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Within one year	1,753	153
In the second to fifth year inclusive	3,287	—
	5,040	153

19. Commitments *(Continued)*

(b) Capital commitments

On 16 February 2007, the Company entered into an acquisition agreement with Asia Pacific Resources Group Company Limited (“APR”), as the vendor and Mr. Mung Kin Keung, as a guarantor of the obligations of APR under the acquisition agreement. Pursuant to the agreement, APR conditionally agreed to sell and the Company conditionally agreed to purchase the entire issued share capital of China Mineral Resources Limited for an aggregates consideration of HK\$450,000,000. The consideration will be satisfied by (a) as to HK\$300 million by the Company allotting and issuing a total of 500 million new shares at HK\$0.60 per share credited as fully paid and (ii) as to HK\$150 million by the Company paying in cash. The transaction constitutes a very substantial acquisition for the Company and is subject to the approval of the Company’s shareholders. The Company is in the process of preparation of the circular to be dispatched to the shareholders.

On 29 May 2007, Super Grand Investments Limited (the “Purchaser”), a wholly owned subsidiary of the Company entered into the following agreements:

- (i) A conditional sale and purchase agreement (the “Siberian Agreement”) with Siberian Worldwide Limited (“Siberian”). Pursuant to the Siberian Agreement, the Purchaser has conditionally agreed to purchase and Siberian has conditionally agreed to sell 304,290,200 shares of nominal value of HK\$0.00125 each in the issued share capital of China Primary Resources Holdings Limited (“CPR”). The consideration amounted to HK\$115,630,275.24 and will be satisfied by the issuance of 101,430,066 new shares of the Company.
- (ii) A conditional sale and purchase agreement (the “Asia Bright Agreement”) with Asia Bright International Limited (“Asia Bright”). Pursuant to the Asia Bright Agreement, the Purchaser has conditionally agreed to purchase and Asia Bright has conditionally agreed to sell 286,123,640 shares of nominal value of HK\$0.00125 each in the issued share capital of CPR. The consideration amounted to HK\$108,726,982.44 and will be satisfied by the issuance of 95,374,546 new shares of the Company.

19. Commitments (*Continued*)

- (iii) A conditional sale and purchase agreement (the “First South Agreement”) with First South International Limited (“First South”). Pursuant to the First South Agreement, the Purchaser has conditionally agreed to purchase and the First South has conditionally agreed to sell 272,498,680 shares of nominal value of HK\$0.00125 each in the issued share capital of CPR. The consideration amounted to HK\$103,549,498.00 and will be satisfied by the issuance of 90,832,893 new shares of the Company.

The above conditional acquisitions were approved by the shareholders of the Company on 27 July 2007 and were subject to the satisfaction of various conditions precedents, amongst other things, the completion of a very substantial acquisition by CPR of 22.28% interest in a mining company (the “CPR Acquisition”). On 29 June 2007, CPR announced that as more time is needed for the preparation of the circular for the CPR Acquisition for its shareholders’ approval, the dispatch of such circular was extended to on or before 30 September 2007.

20. Litigation and Contingent Liabilities

At 30 June 2007, the Group had the following litigation and contingent liabilities:

Reference is made to the disclosure of litigation and contingent liabilities in the annual reports 2004, 2005 and 2006 of the Company.

- (a) After taking legal advice, the receivers of the Company, Mr. Alan Chung Wah Tang and Ms. Alison Wong Lee Fung Ying, both from Grant Thornton, Certified Public Accountants (the “Receivers”), commenced legal proceedings on 2 July 2003 against Great Center Limited (“Great Center”) for the repayment of two sums totaling US\$4.5 million (or approximately HK\$35.1 million), remitted on or about 21 May 2003 with no apparent justification, from the bank account of Merchants (Hong Kong) Limited, to a bank account maintained in the name of Great Center, and interest thereon, damages and costs of the legal proceedings (the “Great Center Action”).

20. Litigation and Contingent Liabilities *(Continued)*

- (b) The writ of summons issued on 2 July 2003 in relation to the claim against Great Center for the repayment of US\$4.5 million was amended on 10 July 2004 (the “Amended Writ”) to include the claims for (i) the repayment of HK\$12.8 million remitted from a bank account of the Company to a bank account in the name of Great Center on or about 17 April 2003; and (ii) the repayment of HK\$22.0 million remitted from a bank account of the Company to a bank account in the name of Modern Shine Enterprises Limited (“Modern Shine”), a company incorporated in the British Virgin Islands, on or about 22 April 2003, interest thereon, damages and costs of legal proceedings. The sum of claims under the Amended Writ amounts to approximately HK\$69.9 million. At last, the court entered judgment against Modern Shine on 7 November 2005 for the sum of HK\$22,000,000 plus interest and damages for conversion and interest thereon. Regarding the claim against Great Center, the Company has reached an amicable settlement with Great Center’s liquidators. The settlement was approved by the court on 6 November 2006. The Company received the settlement sum of US\$2,637,000 plus interest in the sum of US\$114,210.30 from Great Center’s liquidators on 20 November 2006. The Company has not obtained the judgment sum of HK\$22,000,000. Since Modern Shine is a company incorporated in the British Virgin Islands, it makes the enforcement extremely costly. Further, the Company has no information on the financial status and asset position of Modern Shine. As advised by the legal advisers to the Company, the viable course of action includes the petitioning for winding up of Modern Shine, which is also a very costly process.

20. **Litigation and Contingent Liabilities** *(Continued)*

- (c) On 23 August 2003, the Receivers commenced legal proceedings against Win Victory Holdings Limited (“Win Victory”), a company incorporated in Hong Kong, for the repayment of a sum of HK\$37.0 million, together with interest thereon, damages and costs of the legal proceedings. Further, the Receivers, on behalf of the Company, petitioned for the winding-up of Win Victory on the grounds, inter alia, that Win Victory is unable to pay its debts and provisional liquidators were appointed. Due to the lack of funds in Win Victory, the provisional liquidators have not undertaken an extensive investigation and have recently made an application to the court for the discharge of their appointment and their application is fixed to be heard on 20 April 2006. The continuation of the winding-up petition was to enable a more thorough investigation of the flow of funds in and out of Win Victory. In view of the application by the provisional liquidators, the official receiver made an application to restore the winding-up petition, which has been adjourned to 24 April 2006 for hearing. The court had on the hearing of 24 April 2006 ordered that Win Victory be wound-up on the petition of the Company. The Company is making arrangement to prove its debts and to recover its costs of the winding up proceedings in the liquidation of Win Victory.

21. Pledge of Assets

	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
(a) Margin financing loan facilities secured by:		
– available-for-sale investments	964,988	—
– trading securities	368,564	225,229
	<u>1,333,552</u>	<u>225,229</u>
(b) Banking facilities of HK\$10 million (2006: HK\$10 million) granted by a bank and secured by bank deposits of the Group		
	10,300	10,098
	<u>1,343,852</u>	<u>235,327</u>

22. Related Party Transactions

Key management personnel compensation:

	Six months ended 30 June	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (audited)
Basic salaries and other allowances	902	300
Bonuses	180	25
Retirement benefits scheme contributions, net of nil forfeited contributions	22	15
	<u>1,104</u>	<u>340</u>

23. Post Balance Sheet Events

- (a) On 4 July 2007, Sun Hung Kai International Limited and 3V Capital Limited (the “Joint Placing Agents”) and the Company, entered into a placing agreement (the “Placing Agreement”). Pursuant to the Placing Agreement, the Company has agreed to place through the Joint Placing Agents 665,000,000 new shares (the “Placing Shares”) to independent investors at a price of HK\$1.29 per share. The Placing Shares represent approximately 19.80 per cent of the issued share capital of the Company at the same date. The transaction was completed on 20 July 2007.
- (b) Share options were proposed to grant to Mr. Liu Yongshun to subscribe for 150,000,000 ordinary shares of the Company at an exercise price of HK\$1.20 per share on 29 May 2007. An ordinary resolution for the grant of options to Mr. Liu has been passed on a special general meeting held on 27 July 2007.
- (c) An ordinary resolution for the grant of options to Mr. Cao Zhong and Ms. Chong Sok Un to subscribe for 100,000,000 and 110,000,000 ordinary shares of the Company respectively at an exercise price of HK\$1.50 per share pursuant to the share option scheme of the Company adopted on 22 September 2004 has been passed on a special general meeting held on 15 August 2007.



GRAHAM H.Y. CHAN & CO.
CERTIFIED PUBLIC ACCOUNTANTS
HONG KONG

Report on Review of Interim Financial Statements
To the Board of Directors of
APAC Resources Limited
(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial statements set out on pages 4 to 26, which comprise the condensed consolidated balance sheet of APAC Resources Limited (the “Company”) and its subsidiaries (together the “Group”) as at 30 June 2007 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on the interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and presentation of these interim financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements have not been properly prepared, in all material respects, in accordance with HKAS 34.

Graham H. Y. Chan & Co.

Certified Public Accountants (Practising)

Hong Kong 7 September 2007

FINANCIAL RESULTS

For the six months ended 30 June 2007, the Group's turnover increased by 224% to HK\$18,725,000 (2006: HK\$5,788,000). Net profit attributable to shareholders of the Company was HK\$142,137,000 versus a loss of HK\$6,094,000 for the corresponding period of 2006. The substantial improvement in financial result was mainly due to the contribution from its investment in listed securities of natural resources sector. Earnings per share (basic) of the Company was HK Cents 4.99 (six months period ended 2006: loss per share HK Cents 1.48).

As at 30 June 2007, the Group's net asset value per share was HK\$0.41 (31 December 2006: HK\$0.10)

BUSINESS REVIEW

Trading and investment of listed securities

For the first half of 2007, the Group's business of trading and investment of listed securities recorded a realised gain of HK\$16,535,000 (2006: nil) from the partial realisation of its long-term investment and an unrealised gain of HK\$141,022,000 (2006: nil) from its portfolio of trading securities. This satisfactory performance was due to the Group's ability in securing good investment opportunities in the booming natural resources sector during the first half of the year.

During the period under review, the Group completed the respective acquisitions of (i) 108,253,810 shares in Mount Gibson Iron Limited ("MGX"), representing approximately 13.74% of the issued share capital of MGX, for an aggregate consideration of approximately HK\$549,625,000 and (ii) 28,000,000 shares and 14,000,000 options (exercisable into the same number of shares) in Australasian Resources Limited ("ARH") representing approximately 7.29% of the issued share capital of ARH, for an aggregate consideration of approximately HK\$174,846,000. Subsequent to the partial realisation in its investment in ARH, the Group's shareholding in ARH decreased to 5.68% as at 30 June 2007. MGX and ARH are companies incorporated in Australia with their shares listed on the Australian Stock Exchange. MGX's principal businesses are mining of hematite iron ore at Tallering Peak and Koolan Island and exploration and development of hematite iron ore deposit in Midwest region of Western Australia. ARH's principal activity is mineral exploration. Recent development of ARH includes the Balmoral South Iron Ore Project with respect to the right to mine 1 billion tonnes of magnetite ore from part of the Balmoral South Project situated in the Pilbara region of Western Australia and the Sherlock Bay Nickel Project situated in the West Pilbara region of Western Australia with respect to exploiting the nickel sulphide deposit contained in that project area.

BUSINESS REVIEW (CONTINUED)

Trading in fabric products

For the first half year of 2007, there was an increase in turnover to HK\$18,725,000 (2006: nil). Due to the keen competition within this business sector, the profit margin was relatively low and a segment profit of HK\$557,000 (2006: HK\$65,000) was recorded.

Trading in base metals

There was no trading in base metals (2006: HK\$5,788,000) nor segment profit was recorded (2006: HK\$15,000) in the period under review. With the positive outlook on the natural resources sector, the Group is actively seeking and identifying business opportunities in this business sector.

The acquisition of an iron ore mine in Mongolia

On 16 February 2007, the Group entered into a conditional acquisition agreement, subject to satisfaction of certain conditions precedent including financial, legal and technical due diligences, to acquire the entire share capital of China Mineral Resource Limited (“CMR”) for an aggregate consideration of HK\$450,000,000. The Group understands from the vendor that CMR through a wholly owned subsidiary incorporated in Mongolia owns the rights of exploration and exploitation of an iron ore mine in Mongolia. As advised by the technical adviser that more time is needed to conduct the site visit and inspection on the iron ore mine in Mongolia for preparation of the technical report, it is expected that a circular containing details of the acquisition will be dispatched to the shareholders of the Company by the end of December 2007.

BUSINESS REVIEW (CONTINUED)

The acquisition of interest in China Primary Resources Holding Limited

On 29 May 2007, the Group entered into various conditional acquisition agreements to acquire an aggregate of 862,912,520 shares in China Primary Resources Holdings Limited (“CPR”) representing approximately 12.66% of the issued share capital of CPR for an aggregate consideration of approximately HK\$327,907,000 (“Conditional Acquisitions”). The aggregate consideration will be settled by way of the issue of 287,637,505 new shares by the Company on completion of the Conditional Acquisitions. These Conditional Acquisitions are subject to the satisfaction of various conditions precedent, amongst other things, the approval by the shareholders of the CPR and the completion of a very substantial acquisition by CPR of a 22.28% interest in a mining company (“CPR’s Acquisition”). On 27 July 2007, shareholders of the Company at a special general meeting had approved the Conditional Acquisitions. On 29 June 2007, CPR announced that as more time is needed for the preparation of the circular for CPR’s Acquisition for its shareholders’ approval, the despatch of such circular had been extended to on or before 30 September 2007. CPR is a company incorporated in Cayman Islands with its shares listed on the Growth Enterprise Market of the Hong Kong Stock Exchange. CPR’s principal activities involved trading of fibre glass reinforced plastic pipes (“FRP Pipes”), raw materials and composite materials and production of FRP Pipes and polyethylene pipes (“PE Pipes”) in the PRC.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2007, the Group maintained a healthy financial position. The Group's non-current assets consisted mainly of available-for-sale investments of HK\$1,189,787,000 (31 December 2006: nil) and deposit for acquisition of available-for-sale investments of nil (31 December 2006: HK\$20,000,000) and were principally financed by shareholders' funds. As at 30 June 2007, the Group had net current assets of HK\$176,463,000 (31 December 2006: HK\$109,976,000) with current ratio of 1.77 times (31 December 2006: 1.74 times), calculating on the basis of the Group's current assets over current liabilities.

All the Group's borrowings were in Hong Kong Dollars repayable within one year and were secured by listed securities and mortgage of the share capital of a subsidiary. As at 30 June 2007, the Group reported a total borrowings of HK\$217,360,000 (31 December 2006: HK\$141,612,000) and a gearing ratio of 14.5% (31 December 2006: 99.5%), calculating on the basis of the Group's net borrowings (borrowings after deducting cash and cash equivalents) over total equity.

During the first half year of 2007, the Company by way of a rights issue issued 1,259,000,000 ordinary shares (at HK\$0.3 per share) and 251,800,000 bonus warrants (with exercise price of HK\$0.3 per warrant, exercisable from 5 February 2007 to 4 February 2010) and by way of placing of 800,000,000 ordinary shares (at HK\$0.3 per share) by placing to raise equity fund of gross amounts of HK\$377,700,000 and HK\$240,000,000 respectively to finance various acquisitions relating to natural resources industry.

INTERIM DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2007 (2006: nil).

FOREIGN EXCHANGE EXPOSURE

For the period under review, the Group's assets were mainly denominated in Australian Dollar while the liabilities were all denominated in Hong Kong Dollar. As a substantial portion of the assets was held as long-term investments, there would be no material immediate effect on the cash flow of the Group. In light of this, the Group did not hedge for risk arising from the Australian Dollar denominated assets.

PROSPECT

On 20 July 2007, the Group completed a placing of 665,000,000 new shares at a price of HK\$1.29 per share raising equity fund of gross amount of HK\$857,850,000 to be principally applied for further investments in the resources industry, acquisition in shares in listed companies and general working capital of the Group.

With the sustained demand for commodities globally, in particular China and India, the Group believes the prevailing favourable outlooks on commodity prices and performances of resources companies will continue. However, the Group is also concerned about the possible negative impacts from the austerity measures taken by China to curb the over-heated China property market and the worries on the well being of the US economy. Nevertheless, embracing its goal to become a significant natural resources investment and trading group, the Group will continue to identify, evaluate and acquire strategic interests in quality natural resources assets by means of direct investment in mineral projects so as to enhance its shareholder value.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2007, the interests and short positions held by each director and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company or its associated corporations, if any, (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), as recorded in the register required to be kept by the Company under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (“Model Code”) contained in the Listing Rules were as follows:

Long positions in shares and underlying shares of the Company

Name of Directors	Capacity in which interests are held	Number of shares / underlying shares held in the Company			Total interests as to % to the issued share capital of the Company as at 30 June 2007 <i>(Note 1)</i>
		Interests in shares	Interests under equity derivatives	Total interests	
Mr. Cao Zhong	Beneficial owner	—	33,000,000 <i>(Note 2)</i>	33,000,000	0.98%
Mr. Zhou Luyong	Beneficial owner	—	33,000,000 <i>(Note 2)</i>	33,000,000	0.98%
Mr. Yue Jialin (“Mr. Yue”)	Interest of controlled corporation <i>(Note 3)</i>	493,399,602	119,339,960	612,739,562 <i>(Note 4)</i>	18.24%

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

Notes:

1. The percentage of shareholding was calculated on the basis of the Company's issued share capital of 3,359,061,163 shares as at 30 June 2007.
2. The relevant interests are share options granted pursuant to the Company's share option scheme adopted on 22 September 2004 (the "Scheme"). Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK\$0.10 each in the share capital of the Company are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in note 16 to the condensed financial statements.
3. These shares are registered/will be registered (as the case may be) in the name of and beneficially owned by Profit Harbour Investments Limited ("Profit Harbour").
4. This represented an interest in 493,399,602 shares and an interest in 119,339,960 units of warrants giving rise to an interest in 119,339,960 underlying shares. The warrants entitle the holders to subscribe at any time during the period from 5 February 2007 to 4 February 2010 (both days inclusive) for fully paid Shares at an initial subscription price of HK\$0.30 per share (subject to adjustments).

Save as disclosed above, as at 30 June 2007, none of the Company's directors, chief executive or their respective associates had any other personal, family, corporate and other interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of 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 pursuant to the Model Code contained in the Listing Rules.

Other than those disclosed in this section and the section headed "Share Option", no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any Directors or chief executive (including their spouses or children under 18 years of age) during the six months ended 30 June 2007.

SHARE OPTION SCHEME

The detailed disclosures relating to the Company's share option scheme and valuation of options are set out in Note 16 to the condensed financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and Note 16 to the condensed financial statements, at no time during the period under review was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, the following persons, other than a director or chief executive of the Company or any of its subsidiaries, were interested or had short positions in more than 5% of the shares and underlying shares of the Company or its subsidiaries according to the register required to be kept under section 336 of the SFO in the respective amounts as follows:-

Long positions in shares and the underlying shares of the Company

Name of Shareholders	Capacity in which interests are held	Number of shares / underlying shares held in the Company			Total interests as to % to the issued share capital of the Company as at 30 June 2007 (Note 1)
		Interests in shares	Interests under equity derivatives	Total interests	
Benefit Rich Limited ("Benefit")	Interest of controlled corporation (Note 3)	600,000,000	60,000,000	660,000,000 (Note 2)	19.65%
Easymade Investments Limited ("Easymade")	Interest of controlled corporation (Note 3)	200,000,000	—	200,000,000	5.95%
Shougang Holding (Hong Kong) Limited ("Shougang")	Beneficial owner (Note 4)	800,000,000	60,000,000	860,000,000	25.60%

SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Name of Shareholders	Capacity in which interests are held	Number of shares / underlying shares held in the Company			Total interests as to % to the issued share capital of the Company as at 30 June 2007 (Note 1)
		Interests in shares	Interests under equity derivatives	Total interests	
Profit Harbour (Note 5)	Beneficial owner	493,399,602	119,339,960	612,739,562 (Note 6)	18.24%
COL Capital Limited ("COL") (Note 7)	Beneficial owner	674,400,000	5,000,000	679,400,000 (Note 8)	20.23%

Notes:

1. The percentage of shareholding is calculated on the basis of the Company's issued share capital of 3,359,061,163 shares as at 30 June 2007.
2. This represented an interest in 600,000,000 shares and an interest in 60,000,000 units of warrants giving rise to an interest in 60,000,000 underlying shares. The warrants entitle the holders to subscribe at any time during the period from 5 February 2007 to 4 February 2010 (both days inclusive) for fully paid shares at an initial subscription price of HK\$0.30 per share (subject to adjustments).
3. Benefit and Easymade were wholly-owned subsidiaries of Shougang as at 30 June 2007.
4. Benefit and Easymade were wholly-owned subsidiaries of Shougang as at 30 June 2007. As a result, Shougang was deemed to have the same long position as Benefit and Easymade under the SFO.
5. The entire issued share capital of Profit Harbour is owned by Mr. Yue. Accordingly, Mr. Yue is deemed to be interested in 612,739,562 shares under the SFO.
6. This represented an interest in 493,399,602 shares and an interest in 119,339,960 units of warrants giving rise to an interest in 119,339,960 underlying shares. The warrants entitle the holders to subscribe at any time during the period from 5 February 2007 to 4 February 2010 (both days inclusive) for fully paid shares at an initial subscription price of HK\$0.30 per share (subject to adjustments).

SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Notes:

7. Vigor Online Offshore Limited has a 38.49 per cent. interest in COL, a company incorporated in Bermuda with limited liability, with its securities listed on the Main Board of the Stock Exchange. Vigor Online Offshore Limited is a wholly-owned subsidiary of China Spirit Limited in which Ms. Chong Sok Un Owns 100 per cent. beneficial interest. Accordingly, Ms. Chong Sok Un is deemed to be interested in 679,400,000 shares under the SFO.
8. This represented an interest in 674,400,000 shares and an interest in 5,000,000 units of warrants giving rise to an interest in 5,000,000 underlying shares. The warrants entitle the holders to subscribe at any time during the period from 5 February 2007 to 4 February 2010 (both days inclusive) for fully paid shares at an initial subscription price of HK\$0.30 per share (subject to adjustments).

Save as disclosed above, no other person had interest or short position in the shares and underlying shares of the Company or its subsidiaries, which are recorded in the register required to be kept by the Company pursuant to section 336 of the SFO as at 30 June 2006, which is discloseable as per the above.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2007, the Group had 5 managerial, trading and administrative staffs in Hong Kong.

The Group remunerates its employees largely based on the prevailing industry practice.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance. Throughout the six months ended 30 June 2007, the Company had adopted practices which complied with the provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

AUDIT COMMITTEE REVIEW

The Audit Committee has reviewed with the management the accounting policies and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial report for the six months ended 30 June 2007. In carrying out this review, the Audit Committee has relied on a review conducted by the Group's external auditors in accordance with the Hong Kong Standard on Review Engagements 2410 issued by the HKICPA as well as obtaining reports from management. The Audit Committee has not undertaken independent audit checks.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules as the code (the "Code") for dealing in securities of the Company by the Directors and supervisors. Having made specific enquiry, the Company confirmed that all Directors and supervisors had complied with the required standard as set out in the Code for the six months ended 30 June 2007.

By order of the Board

Cao Zhong

Chairman

Hong Kong, 7 September 2007