



APAC RESOURCES

APAC Resources Limited 亞太資源有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 1104

Interim Report 2008



* For identification purpose only



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Mr. Cao Zhong (*Chairman*)
Mr. Liu Yongshun (*Chief Executive Officer*)
Mr. Zhou Luyong (*Deputy Chief Executive Officer*)
Ms. Chong Sok Un
Mr. Chen Zhaoqiang
Mr. Yue Jialin

Independent Non-Executive Directors:

Mr. Wong Wing Kuen, Albert
Mr. Chang Chu Fai, Johnson Francis
Mr. Alan Stephen Jones
Mr. Robert Moyses Willcocks

AUDIT COMMITTEE

Mr. Wong Wing Kuen, Albert
Mr. Chang Chu Fai, Johnson Francis
Mr. Alan Stephen Jones
Mr. Robert Moyses Willcocks

REMUNERATION COMMITTEE

Mr. Cao Zhong
Ms. Chong Sok Un
Mr. Wong Wing Kuen, Albert
Mr. Chang Chu Fai, Johnson Francis
Mr. Alan Stephen Jones
Mr. Robert Moyses Willcocks

COMPANY SECRETARY

Ms. Fung Sam Ming

AUDITORS

Graham H.Y. Chan & Co

LEGAL ADVISERS

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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333 Lockhart Road
Wanchai
Hong Kong
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REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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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

WEBSITE

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STOCK CODE

1104

WARRANT CODE

324



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 the “**Group**”) for the six months ended 30 June 2008, 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 2008

	Notes	Six months ended 30 June	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Turnover	3	<u>401,659</u>	<u>18,725</u>
Gain on disposal of available-for-sale investments		22,488	16,535
Net gain from sales of trading securities		35,079	–
Revenue from sales of goods		170,215	18,725
Unrealised gain on trading securities		258,773	141,022
Interest income		5,247	981
Other operating income		4,704	63
Purchases		(162,538)	(18,188)
Equity-settled share option expenses		(36,637)	(933)
Salaries and allowances		(7,908)	(1,793)
Operating lease rental on buildings		(1,670)	(405)
Provision for doubtful debt for other receivables		(17,025)	–
Gain on disposal of a subsidiary		–	1,536
Other operating expenses		(11,702)	(7,317)
Finance costs		(3)	(8,089)
Profit before taxation	4	<u>259,023</u>	142,137
Income tax expenses	5	<u>(521)</u>	–
Profit for the period		<u>258,502</u>	<u>142,137</u>
Earnings per share attributable to equity shareholders of the Company	6		
– Basic		<u>5.47 HK cents</u>	<u>4.99 HK cents</u>
– Diluted		<u>5.32 HK cents</u>	<u>4.78 HK cents</u>



CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2008

	Notes	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipments	7	1,977	2,198
Available-for-sale investments	8	<u>3,250,341</u>	<u>2,993,426</u>
		<u>3,252,318</u>	<u>2,995,624</u>
Current assets			
Trade and other receivables	9	231,008	233,296
Trading securities	10	1,437,784	814,957
Pledged bank deposits	15	88,979	10,526
Cash and cash equivalents	15	<u>329,877</u>	<u>694,945</u>
		<u>2,087,648</u>	<u>1,753,724</u>
Current liabilities			
Other payables		9,603	9,018
Margin financing loan	11	–	1,797
Tax payable		<u>758</u>	<u>237</u>
		<u>10,361</u>	<u>11,052</u>
Net current assets		<u>2,077,287</u>	<u>1,742,672</u>
Total assets less current liabilities		<u>5,329,605</u>	<u>4,738,296</u>
Capital and reserves			
Share capital	12	472,657	472,629
Reserves		<u>4,856,948</u>	<u>4,265,667</u>
Total equity attributable to equity holders of the Company		<u>5,329,605</u>	<u>4,738,296</u>
Minority interests		–	–
Total equity		<u>5,329,605</u>	<u>4,738,296</u>



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Share capital	Share premium account	Special reserve	Investment revaluation reserve	Exchange reserve	Share option reserve	Retained earnings/ (accumulated losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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
Equity-settled share option expenses	-	-	-	-	-	933	-	933
Profit for the period	-	-	-	-	-	-	142,137	142,137
At 30 June 2007	<u>335,906</u>	<u>512,260</u>	<u>(14,980)</u>	<u>477,828</u>	<u>-</u>	<u>933</u>	<u>55,723</u>	<u>1,367,670</u>
At 1 January 2008	472,629	1,987,747	(14,980)	1,817,762	1,350	214,889	258,899	4,738,296
Issue of shares upon exercise of warrants	28	56	-	-	-	-	-	84
Changes in fair value of available-for-sale investments	-	-	-	280,199	-	-	-	280,199
Exchange difference arising from translation of accounts of overseas subsidiaries	-	-	-	-	15,887	-	-	15,887
Equity-settled share option expenses	-	-	-	-	-	36,637	-	36,637
Profit for the period	-	-	-	-	-	-	258,502	258,502
At 30 June 2008	<u>472,657</u>	<u>1,987,803</u>	<u>(14,980)</u>	<u>2,097,961</u>	<u>17,237</u>	<u>251,526</u>	<u>517,401</u>	<u>5,329,605</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net Cash From Operating Activities	225	8,654
Net Cash Used In Investing Activities	(379,470)	(692,463)
Net Cash (Used In)/From Financing Activities	(1,710)	690,717
Net (Decrease)/Increase in Cash and Cash Equivalents	(380,955)	6,908
Cash and Cash Equivalents at 1 January	694,945	12,282
Effect of foreign exchange rate changes	15,887	–
Cash and Cash Equivalents at 30 June	329,877	19,190
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	302,127	19,159
Cash held in securities accounts maintained in securities companies	27,750	31
	329,877	19,190

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

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; (ii) trading in fabric products and other merchandises and (iii) trading and investment of listed securities in the resources and related industries.

These condensed consolidated interim financial statements ("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 of Directors on 22 September 2008.

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 ("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 2007 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 2007 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 2008.

HK (IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions
HK (IFRIC) – INT 12	Service concession arrangements
HK (IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interactions

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 1 (Revised)	Presentation of financial statements ¹
HKAS 23 (Revised)	Borrowing costs ¹
HKAS 27 (Revised)	Consolidated and separate financial statements ²
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation ¹
HKFRS 2 (Amendment)	Share-based payment-vesting conditions and cancellations ¹
HKFRS 3 (Revised)	Business combinations ²
HKFRS 8	Operating segments ¹
HK (IFRIC) – Int 13	Customer loyalty programmes ³
HK (IFRIC) – Int 15	Agreements for the construction of real estate ¹
HK (IFRIC) – Int 16	Hedges of a net investment in a foreign operation ⁴

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

² *Effective for annual periods beginning on or after 1 July 2009*

³ *Effective for annual periods beginning on or after 1 July 2008*

⁴ *Effective for annual periods beginning on or after 1 October 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.

	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
Six months ended 30 June 2008				
Revenue from external customers	170,215	–	231,444	401,659
Segment result	4,594	442	322,443	327,479
Unallocated corporate expenses				(68,453)
Finance costs				(3)
Profit before taxation				259,023
Taxation				(521)
Profit for the period				258,502
Six months ended 30 June 2007				
Revenue from external customers	–	18,725	–	18,725
Segment result	–	557	157,557	158,114
Unallocated corporate expenses				(9,424)
Gain on disposal of a subsidiary				1,536
Finance costs				(8,089)
Profit before taxation				142,137
Taxation				–
Profit for the period				142,137

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	
	2008	2007
	HK\$'000	HK\$'000
Hong Kong and PRC	102,956	7,240
Australia	231,444	–
South East Asia	67,259	988
United States of America	–	2,049
Africa	–	8,448
	401,659	18,725

4. Profit Before Taxation

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)

Profit before taxation has been arrived
at after charging/(crediting) the following:

Depreciation	405	26
Exchange gain, net	(4,688)	(20)
Legal and professional fees	3,756	3,201
Consultancy fee	621	632
Staff costs, including directors' emoluments		
– salaries and allowance	7,908	1,793
– equity-settled share option expenses	36,637	933
– staff quarter	111	–
– retirement benefits scheme contributions, net of nil forfeited contributions	30	46
Total staff costs	44,686	2,772



5. Income Tax Expenses

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Hong Kong profits tax provided for the period	–	–
Overseas tax provided for the period	<u>521</u>	–
	<u>521</u>	–

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for the six months ended 30 June 2008 (six months period ended 30 June 2007: nil).

No provision for overseas taxation has been made for the six months period ended 30 June 2007 as the subsidiaries operating in the PRC has no assessable income for PRC taxation purpose.

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

6. Earnings Per Share

- (a) The calculation of the basic earnings per share is based on the profit for the period of approximately HK\$258,502,000 (six months ended 30 June 2007: HK\$142,137,000) and on the weighted average of 4,726,524,901 (six months ended 30 June 2007: 2,850,853,386) shares in issue during the period.

6. Earnings Per Share (Continued)

- (b) The weighted average number of ordinary shares for the purpose of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:

	Six months ended 30 June	
	2008	2007
Weighted average number of ordinary shares used in the calculation of basic earnings per share	4,726,524,901	2,850,853,386
Shares deemed to be issued for no consideration in respect of:		
– warrants	129,714,824	124,284,222
– share options	–	–
	<u>4,856,239,725</u>	<u>2,975,137,608</u>

The calculation of the diluted earnings per share did not assume the exercise of the Company's outstanding share options as their exercise prices were higher than the average market price of the Company's shares during the period.

7. Property, Plant and Equipments

During the period, the Group's acquisition of property, plant and equipment amounted to HK\$191,000 (six months ended 30 June 2007: HK\$1,446,000).

8. Available-for-sale Investments

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Listed equity securities, in Hong Kong, at fair value	98,372	177,760
Listed equity securities, in overseas, at fair value	3,151,969	2,815,666
	<u>3,250,341</u>	<u>2,993,426</u>



9. Trade and Other Receivables

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Trade receivables	–	5,170
Other receivables	53,522	646
Purchase deposits	176,468	226,368
Other deposits and prepayments	1,018	1,112
	231,008	233,296

The Group allows an average credit period of 60 – 90 days to its trade customers.

The aged analysis of trade receivables that are not considered to be impaired is as follows:

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Neither past due nor impaired:		
Current	–	–
Past due but not impaired:		
0 to 30 days	–	–
31 to 60 days	–	–
61 to 90 days	–	4,559
Over 90 days	–	611
	–	5,170

10. Trading Securities

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Trading securities, at fair value		
Listed equity securities, in Hong Kong	1,898	2,578
Listed equity securities, in overseas	1,435,886	812,379
	1,437,784	814,957

11. Margin Financing Loan

The margin financing loan facilities were secured by certain available-for-sale investments and trading securities with carrying amount of approximately HK\$4,167,978,000 as at 30 June 2008 (31 December 2007 (audited) HK\$3,628,045,000).

12. Share Capital

	Number of ordinary shares of HK\$0.10 each	Amount HK\$'000
Authorised:		
At 1 January 2008 and at 30 June 2008	8,000,000,000	800,000
Issued and fully paid:		
At 1 January 2008	4,726,291,055	472,629
Issue of shares upon exercise of warrants	280,000	28
At 30 June 2008	4,726,571,055	472,657



13. Share Options 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 6 June 2008, the mandate limit of the Scheme was refreshed to 472,657,105 shares. During the six month period ended 30 June 2008, 3,000,000 share options held by a director and 3,000,000 share options held by a staff (year ended 31 December 2007: nil) were lapsed. As at 30 June 2008, there were 505,000,000 (as at 31 December 2007 (audited): 511,000,000) share options outstanding.

14. Warrants

On 5 February 2007, the Company issued a total of 251,800,000 bonus warrants (the "Warrants"), as a result of the rights issue completed on 1 February 2007, with an aggregate subscription amount of HK\$75,540,000. Each of the Warrants entitled the warrant-holder to subscribe for one ordinary share of the Company of HK\$0.10 each at the initial subscription price of HK\$0.30 (subject to adjustment (if any)) during the period from 5 February 2007 until 4 February 2010 (both dates inclusive).

During the six months period ended 30 June 2008, 280,000 Warrants were exercised for 280,000 ordinary shares (year ended 31 December 2007: 55,653,550 Warrants were exercised for 55,653,550 ordinary shares) of HK\$0.10 each at a price of HK\$0.30. As at 30 June 2008, there were 195,866,450 Warrants outstanding (as at 31 December 2007 (audited): 196,146,450 Warrants outstanding).

15. Cash and Cash Equivalents

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Pledged bank deposits	88,979	10,526
Cash at bank and in hand	302,127	690,644
Cash held in securities accounts maintained in securities companies	27,750	4,301
	418,856	705,471
Less: Pledged bank deposits	(88,979)	(10,526)
Cash and cash equivalents	329,877	694,945

16. 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 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Within one year	2,004	2,004
In the second to fifth year inclusive	1,649	2,651
	3,653	4,655

Operating lease payments represent rental payable by the Group for its office premises, a director's quarter and a photocopying machine. Leases are negotiated for the term of between two to five years.

(b) *Capital commitments*

On 20 Dec 2007, the Company entered into an investment agreement with 平頂山煤業(集團)有限公司("平頂山煤業") and 平頂山煤業集團天藍能源發展有限公司("天藍能源"), to form a limited company which will be incorporated in the PRC with the registered capital of RMB50 million. The interest in the investment from 平頂山煤業, 天藍能源 and the Company are 40%, 20% and 40% respectively. Capital payable by the Company is RMB20 million, which equivalent to approximately HK\$23 million was settled on 25 July 2008. The incorporation process considered as completed.



17. Pledge of Assets

	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
(a) Margin financing loan facilities secured by certain available-for-sale investments and trading securities	4,167,978	3,628,045
(b) Banking facilities of HK\$10 million and USD 60 million (2007: HK\$10 million) granted by banks and secured by bank deposits of the Group	88,979	10,526
	4,256,957	3,638,571

18. Related Party Transactions

Key management personnel compensation:

	Six months ended 30 June 2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Basic salaries and other allowances	4,200	902
Bonuses	-	180
Retirement benefits scheme contributions, net of nil forfeited contributions	-	22
	4,200	1,104

19. Post Balance Sheet Events

As announced on 16 July 2008, the Company, through its direct wholly-owned subsidiary, APAC Resources Investments Limited (“**ARI**”), entered into a conditional sale and purchase agreement (“**Conditional Agreement**”) with Leaping Far Investments Limited (“**Leaping Far**”) and pursuant to which ARI has conditionally agreed to purchase 10 issued shares of par value of US\$1 each, representing the entire issued share capital of Good China Limited (“**GCL**”) and accept the assignment of a loan in the amount of US\$16.1 million, equivalent to HK\$125.58 million due by GCL to Leaping Far, at an aggregate consideration of HK\$1,200,000,000. The consideration will be satisfied as to (i) HK\$600,000,000 by cash and (ii) HK\$600,000,000 by allotting and issuing a total of 600,000,000 new ordinary shares of the Company at HK\$1.00 per share as fully paid, to Leaping Far on completion.

GCL is the legal and beneficial owner of the entire issued share capital of Upper China Industrial Limited which in turn owns 49% equity interest in a joint venture company which is engaged in the business of iron ore mining and production of iron ore materials in the PRC.

INDEPENDENT REVIEW REPORT



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 3 to 18, which comprise the condensed consolidated balance sheet of APAC Resources Limited (the "Company") and its subsidiaries (together the "Group") as at 30 June 2008 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 accompanying 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 22 September 2008

INTERIM DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2008 (2007: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30 June 2008, the Group's turnover increased by 20 times to HK\$401,659,000 (2007: HK\$18,725,000). Net profit attributable to shareholders of the Company was HK\$258,502,000 as compared with HK\$142,137,000 for the corresponding period of 2007. The substantial improvement in financial result was mainly due to the realised gain from sales of trading securities and increase in unrealised gain on trading securities. Basic earnings per share of the Company was HK Cents 5.47 (corresponding period in 2007: HK Cents 4.99), while diluted earnings per share was HK Cents 5.32 (corresponding period in 2007: HK Cents 4.78).

As at 30 June 2008, total equity attributable to equity shareholders of the Company amounted to HK\$5,329,605,000 (31 December 2007: HK\$4,738,296,000) and the Group's net asset value per share was HK\$1.13 (31 December 2007: HK\$1.00).

Business Review

Trading and investment of listed securities

For the first half of 2008, the Group's business of trading and investment of listed securities recorded a realised gain of HK\$22,488,000 (2007: HK\$16,535,000) from the partial realisation of its long-term investment, a realised gain from sales of trading securities of HK\$35,079,000 (2007: nil) and an unrealised gain of HK\$258,773,000 (2007: HK\$141,022,000) 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.

Business Review *(Continued)*

Trading and investment of listed securities *(Continued)*

During the period under review, the Group continued to maintain long-term investments in shares in Mount Gibson Iron Limited ("**MGX**"), Australasian Resources Limited ("**ARH**") and China Primary Resources Holdings Limited ("**CPR**"). 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 Talling Peak and Koolan Island and exploration and development of hematite iron ore deposit at Extension Hill. 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. CPR is a company incorporated in Cayman Islands with its shares listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. CPR's principal businesses are manufacture and sale of polyethylene/fibre glass reinforced plastic pipes and mining businesses and property development.

In the first half of 2008, the Group has also increased its investment in resources related securities in order to strengthen its securities trading portfolio.

Trading in fabric products

There was no trading in fabric products (2007: HK\$18,725,000) and a segment profit of HK\$442,000 was recorded (2007: HK\$557,000) in the period under review. Due to intense competition and dim outlook within this market, the Group has wound down the operations in this sector.

Trading in base metals

For the first half year of 2008, as a result of the strengthening of its business in trading of base metals, the Group recorded a turnover of HK\$170,215,000 (2007: nil) and a segment profit of HK\$4,594,000 (2007: nil).

Financial Review

Liquidity, Financial Resources and Capital Structure

As at 30 June 2008, the Group maintained a healthy financial position. The Group's non-current assets consisted mainly of available-for-sale investments of HK\$3,250,341,000 (31 December 2007: HK\$2,993,426,000) and the Group had net current assets of HK\$2,077,287,000 (31 December 2007: HK\$1,742,672,000) with current ratio of 201.5 times (31 December 2007: 158.7 times), calculating on the basis of the Group's current assets over current liabilities.

The flexibility of financial resources available to the Group was enhanced by both short term credit facilities granted by a stock-broking firm and banking facilities granted to the Group. The short term credit facilities were secured by available-for-sale investments and trading securities while the banking facilities were secured by bank deposits. As at 30 June 2008, the Group had no borrowings (31 December 2007: HK\$1,797,000) and a gearing ratio of 0% (31 December 2007: 0%), calculating on the basis of the Group's net borrowings (after cash and cash equivalents) over the sum of total equity and net borrowings.

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.

Pledge of Assets

As at 30 June 2008, the Group's available-for-sale investments and trading securities of HK\$4,167,978,000 (31 December 2007: HK\$3,628,045,000) were pledged to a stock-broking firm to secure short term credit facilities granted to the Group and the Group's bank deposits of HK\$88,979,000 (31 December 2007: HK\$10,526,000) were pledged to banks to secure banking facilities granted to the Group.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2008, the Group had 27 employees. The Group ensured that its employees are remunerated according to the prevailing manpower market conditions and individual performance with its remuneration policies reviewed on a regular basis.

PROSPECT

As announced on 16 July 2008, the Company, through its wholly-owned subsidiary, ARI, entered into a Conditional Agreement with Leaping Far and pursuant to which ARI has conditionally agreed to purchase from Leaping Far the entire issued share capital of GCL (the “**Sale Shares**”) and accept the assignment of loan in the amount of US\$16,100,000 equivalent to HK\$125,580,000 due by GCL to Leaping Far (the “**Loan**”), at an aggregate consideration of HK\$1,200,000,000.

The aggregate consideration in the sum of HK\$1,200,000,000 will be satisfied as to (i) HK\$600,000,000 by cash and (ii) HK\$600,000,000 by the issue to Leaping Far of 600,000,000 new shares of the Company (at HK\$1.00 per share) (the “**Consideration Shares**”) upon completion of the purchase of the Sale Shares by ARI and the assignment of the Loan pursuant to the Conditional Agreement. The Consideration Shares (being 600,000,000 new shares) represents approximately 11.26% of the enlarged issued share capital of the Company upon allotment and issue of the Consideration Shares.

GCL is the legal and beneficial owner of the entire issued share capital of Upper China Industrial Limited which in turn owns 49% equity interests in 灤平縣偉源礦業有限責任公司 (Lan Ping Xian Wei Yuan Mining Co. Ltd.) (the “**Joint Venture Company**”) which is engaged in the business of iron ore mining and production of iron ore materials in the PRC. The main assets of the Joint Venture Company are the iron ore mine and its related infrastructure. In accordance with the business licence of the Joint Venture Company, the business operation of the Joint Venture Company includes exploitation of iron ore, processing and selling of iron ore and iron ore concentrates, selling of steel materials, mining machinery and accessories.

Completion of the Conditional Agreement is subject to a number of conditions being fulfilled on or before 13 October 2008, or such other date as may be agreed by ARI and Leaping Far.

The Group is now in the course of conducting the due diligence works on this project.

Other particulars in relation to the transactions contemplated under the Conditional Agreement are disclosed in the Company's circular of 5 August 2008.

The performance of the Group's activities in trading and investment of listed securities is measured by mark-to-market accounting standards and, therefore, the continued global financial turmoil will adversely affect the Group's results for the second half of 2008. This, coupled with the possible recession in the US and the slowing down of the economy in China, necessitate a more cautious view to be taken by the Group in its investments activities. With a strong and healthy financial position, however, the Group is able to take advantage of such market conditions when grossly undervalued investments and business opportunities arise.



OTHER INFORMATION

Directors' Interests in Shares, Underlying Shares and Debentures

As at 30 June 2008, 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 of Hong Kong Limited (the “**Stock Exchange**”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) contained in the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) were as follows:

Long positions in shares and underlying shares of the Company

Name of Director	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 2008 (Note 1)
		Interests in shares	Interests under equity derivatives	Total Interests	
Mr. Cao Zhong	Beneficial owner	–	133,000,000 (Note 2)	133,000,000	2.81%
Mr. Liu Yongshun	Beneficial owner	–	150,000,000 (Note 2)	150,000,000	3.17%
Ms. Chong Sok Un	Beneficial owner and interest of controlled corporation (Note 3)	601,120,000	115,000,000 (Note 2 & 4)	716,120,000 (Note 5)	15.15%
Mr. Zhou Luyong	Beneficial owner	–	33,000,000 (Note 2)	33,000,000	0.70%
Mr. Chen Zhaoqiang	Beneficial owner	–	33,000,000 (Note 2)	33,000,000	0.70%

Directors' Interests in Shares, Underlying Shares and Debentures (Continued)

Long positions in shares and underlying shares of the Company (Continued)

Name of Director	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 2008 (Note 1)
		Interests in shares	Interests under equity derivatives	Total Interests	
Mr. Yue Jialin	Interest of controlled corporation (Note 6)	368,399,602	119,339,960	487,739,562 (Note 7)	10.32%
Mr. Wong Wing Kuen, Albert	Beneficial owner	-	3,000,000 (Note 2)	3,000,000	0.06%
Mr. Chang Chu Fai, Johnson Francis	Beneficial owner	-	2,000,000 (Note 2)	2,000,000	0.04%

Notes:

- The percentage of shareholding was calculated on the basis of the Company's issued share capital of 4,726,571,055 shares as at 30 June 2008.
- 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 and the holders thereof are entitled to subscribe for shares of the Company. Further details of the share options are set out in note 13 to the condensed financial statements.
- These shares are held by Sparkling Summer Limited ("**Sparkling Summer**"), which is an indirect wholly-owned subsidiary of COL Capital Limited ("**COL**"). COL is 38.56% owned by Vigor Online Offshore Limited which in turn is a wholly-owned subsidiary of China Spirit Limited ("**China Spirit**") in which Ms. Chong Sok Un maintains 100% beneficial interest. COL is therefore deemed to have interests in the shares in which Sparkling Summer is interested. Ms. Chong Sok Un is therefore deemed to have interests in the shares through her 100% interest in China Spirit.
- This represented 110,000,000 share options granted to Ms. Chong Sok Un and an interest in 5,000,000 units of warrants giving rise to an interest in 5,000,000 underlying shares held by Sparkling Summer.



Directors' Interests in Shares, Underlying Shares and Debentures (Continued)

Long positions in shares and underlying shares of the Company (Continued)

5. This represented an interest in 601,120,000 shares held by Sparkling Summer, 110,000,000 share options granted to Ms. Chong Sok Un and an interest in 5,000,000 units of warrants giving rise to an interest in 5,000,000 underlying shares held by Sparkling Summer. 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\$0.3 per share (subject to adjustments).
6. 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**"), the entire issued share capital of which is owned by Mr. Yue Jialin.
7. This represented an interest in 368,399,602 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\$0.3 per share (subject to adjustments).

Save as disclosed above, as at 30 June 2008, 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, 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 2008.

Share Option Scheme

Further disclosure relating to the Company's share option scheme is set out in note 13 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 13 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, 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.



Substantial Shareholders

As at 30 June 2008, 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 underlying shares of the Company

Name of Shareholder	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 2008 <i>(Note 1)</i>
		Interests in shares	Interests under equity derivatives	Total interests	
Benefit Rich Limited	Interest of controlled corporation <i>(Note 3)</i>	600,000,000	60,000,000	660,000,000 <i>(Note 2)</i>	13.96%
Easmade Investments Limited	Interest of controlled corporation <i>(Note 3)</i>	100,000,000	–	100,000,000	2.12%
Shougang Holding (Hong Kong) Limited	Beneficial owner <i>(Note 4)</i>	700,000,000	60,000,000	760,000,000	16.08%
COL Capital Limited	Interest of controlled corporation <i>(Note 5)</i>	601,120,000	5,000,000 <i>(Note 6)</i>	606,120,000 <i>(Note 7)</i>	12.82%
Ms. Chong Sok Un	Beneficial owner and interest of controlled corporation <i>(Note 8)</i>	601,120,000	115,000,000 <i>(Note 6)</i>	716,120,000 <i>(Note 7)</i>	15.15%
Profit Harbour Investments Limited	Interest of controlled corporation <i>(Note 9)</i>	368,399,602	119,339,960	487,739,562 <i>(Note 10)</i>	10.32%
Mr. Yu Jialin	Beneficial owner and interest of controlled corporation	368,399,602	119,339,960	487,739,562 <i>(Note 10)</i>	10.32%



Substantial Shareholders (Continued)

Long positions in shares and underlying shares of the Company (Continued)

Notes:

1. The percentage of shareholding was calculated on the basis of the Company's issued share capital of 4,726,571,055 shares as at 30 June 2008.
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 Rich Limited ("**Benefit**") and Easymade Investments Limited ("**Easymade**") were wholly-owned subsidiaries of Shougang Holding (Hong Kong) Limited ("**Shougang**") as at 30 June 2008.
4. Benefit and Easymade were wholly-owned subsidiaries of Shougang as at 30 June 2008. As a result, Shougang was deemed to have the same long position as Benefit and Easymade under the SFO.
5. These shares are held by Sparkling Summer Limited ("**Sparkling Summer**"), which is an indirect wholly-owned subsidiary of COL Capital Limited ("**COL**"). COL is 38.56% owned by Vigor Online Offshore Limited which in turn is a wholly-owned subsidiary of China Spirit Limited ("**China Spirit**") in which Ms. Chong Sok Un maintains 100% beneficial interest. COL is therefore deemed to have interests in the shares and underlying shares in which Sparkling Summer is interested.
6. This represented 110,000,000 share options granted to Ms. Chong Sok Un and an interest in 5,000,000 units of warrants giving rise to an interest in 5,000,000 underlying shares held by Sparkling Summer. 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).
7. This represented an interest in 601,120,000 shares held by Sparkling Summer, 110,000,000 share options granted to Ms. Chong Sok Un and an interest in 5,000,000 units of warrants giving rise to an interest in 5,000,000 underlying shares held by Sparkling Summer.
8. Ms. Chong Sok Un is therefore deemed to have interests in the shares and underlying shares of the Company through her 100% interest in China Spirit.
9. The entire issued share capital of Profit Harbour Investments Limited ("**Profit Harbour**") is owned by Mr. Yue Jialin.
10. This represented an interest in 368,399,602 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). Mr. Yue Jialin is deemed to have interests in these shares and underlying shares of the Company through his 100% interests in Profit Harbour.

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 2008.



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

During the six months ended 30 June 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 2008, 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 2008. 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 2008.

By order of the Board

Cao Zhong

Chairman

Hong Kong, 22 September 2008