



HONBRIDGE HOLDINGS LIMITED

洪橋集團有限公司

(Stock Code: 8137)



Half Year Report 2010

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*This Report, for which the directors (the “Directors”) of Honbridge Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this Report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this Report misleading; and (iii) all opinions expressed in this Report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## Unaudited Consolidated Half Year Results

The board of directors (the "Board") of the Company hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2010, together with the comparative unaudited figures for the corresponding period in 2009, as follows:

### Consolidated Statement of Comprehensive Income – Unaudited

	Notes	Three months ended 30 June		Six months ended 30 June	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Revenue	2	25,179	7,339	36,214	12,262
Cost of sales		(22,430)	(5,253)	(30,708)	(8,989)
Gross profit		2,749	2,086	5,506	3,273
Other operating income		731	33	735	53
Selling and distribution costs		(2,358)	(1,497)	(3,813)	(2,996)
Administrative expenses		(17,466)	(2,579)	(21,561)	(5,428)
Other operating expenses		–	(381)	–	(594)
Operating loss		(16,344)	(2,338)	(19,133)	(5,692)
Finance costs		(9,599)	(1,260)	(10,751)	(1,715)
<b>Loss before income tax</b>	3	<b>(25,943)</b>	<b>(3,598)</b>	<b>(29,884)</b>	<b>(7,407)</b>
Income tax expense	5	–	–	–	–
<b>Loss for the period</b>		<b>(25,943)</b>	<b>(3,598)</b>	<b>(29,884)</b>	<b>(7,407)</b>
<b>Other comprehensive income, including reclassification adjustments</b>					
Exchange (loss)/gain on translation of financial statements of foreign operations		375	(159)	449	18
Other comprehensive income, net of tax		375	(159)	449	18
Total comprehensive income for the period		(25,568)	(3,757)	(29,435)	(7,389)
<b>Loss for the period attributable to:</b>					
Owners of the Company		(24,666)	(2,983)	(28,076)	(6,390)
Minority interests		(1,277)	(615)	(1,808)	(1,017)
		(25,943)	(3,598)	(29,884)	(7,407)
<b>Total comprehensive income attributable to:</b>					
Owners of the Company		(24,387)	(3,078)	(27,753)	(6,379)
Minority interests		(1,181)	(679)	(1,682)	(1,010)
		(25,568)	(3,757)	(29,435)	(7,389)
<b>Basic loss per share for loss attributable to the owners of the Company during the period</b>	7	<b>HK(0.40) cent</b>	HK(0.09) cent	<b>HK(0.48) cent</b>	HK(0.19) cent

## Condensed Consolidated Statement of Financial Position

	Notes	As at 30 June 2010 HK\$'000 (Unaudited)	As at 31 December 2009 HK\$'000 (Audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		34,127	33,094
Exploration and evaluation assets	8	1,969,118	–
Prepaid land lease payments		20,843	20,840
Goodwill	9	34,140	–
Deposits	10	–	407
		<b>2,058,228</b>	54,341
<b>Current assets</b>			
Inventories		7,858	6,024
Trade and bills receivables		5,732	7,129
Prepayments and other receivables		18,456	10,470
Advances to an acquiring business	11	124,112	–
Financial assets at fair value through profit or loss	12	73,233	–
Cash and cash equivalents		28,033	16,240
		<b>257,424</b>	39,863
<b>Current liabilities</b>			
Trade payables		8,356	8,545
Other payables, accrued expenses and receipts in advance		25,635	21,906
Borrowings	13	13,174	14,375
		<b>47,165</b>	44,826
<b>Net current assets/(liabilities)</b>		<b>210,259</b>	(4,963)
<b>Total assets less current liabilities</b>		<b>2,268,487</b>	49,378
<b>Non-current liabilities</b>			
Borrowings	13	–	597
Loans from ultimate holding company	14	183,875	49,026
Loan from a minority equity holder of a subsidiary	15	5,933	5,933
Convertible notes	16	173,336	–
Deferred tax liabilities		670,193	693
		<b>1,033,337</b>	56,249
<b>Net assets/(liabilities)</b>		<b>1,235,150</b>	(6,871)
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital		6,114	5,513
Reserves		765,782	(28,854)
		<b>771,896</b>	(23,341)
Minority interest		463,254	16,470
<b>Total equity/(capital deficiency)</b>		<b>1,235,150</b>	(6,871)

## Condensed Consolidated Statement of Changes in Equity – Unaudited

For the six months ended 30 June 2010

	Equity attributable to equity holders of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Other reserve HK\$'000	Employee compensation reserve HK\$'000	Translation reserve HK\$'000	Convertible bonds equity reserve HK\$'000	Accumulated losses HK\$'000	Minority interest HK\$'000	Total equity HK\$'000	
<b>2010</b>											
At 1 January 2010	5,513	44,511	(327)	5,848	3,537	72	-	(82,495)	16,470	(6,871)	
Issue of shares	600	447,120	-	-	-	-	-	-	-	447,720	
Exercise of share options	1	1,585	-	-	(190)	-	-	-	-	1,396	
Issue of convertible notes	-	-	-	-	-	-	363,304	-	-	363,304	
Employee share-based compensation	-	-	-	-	10,731	-	-	-	-	10,731	
Obtaining control of subsidiary	-	-	-	-	-	(161)	-	-	448,466	448,305	
Transactions with owners	601	448,705	-	-	10,541	(161)	363,304	-	448,466	1,271,456	
Loss for the period	-	-	-	-	-	-	-	(28,076)	(1,808)	(29,884)	
Other comprehensive income											
Currency translation	-	-	-	-	-	323	-	-	126	449	
<b>Total comprehensive income</b>	-	-	-	-	-	323	-	(28,076)	(1,682)	(29,435)	
<b>At 30 June 2010</b>	<b>6,114</b>	<b>493,216</b>	<b>(327)</b>	<b>5,848</b>	<b>14,078</b>	<b>234</b>	<b>363,304</b>	<b>(110,571)</b>	<b>463,254</b>	<b>1,235,150</b>	
<b>2009</b>											
At 1 January 2009	3,413	30,211	(327)	4,877	3,537	74	1,700	(32,359)	19,686	30,812	
Transactions with owners	-	-	-	-	-	-	-	-	-	-	
Loss for the period	-	-	-	-	-	-	-	(6,390)	(1,017)	(7,407)	
Other comprehensive income											
Currency translation	-	-	-	-	-	11	-	-	7	18	
<b>Total comprehensive income</b>	-	-	-	-	-	11	-	(6,390)	(1,010)	(7,389)	
<b>At 30 June 2009</b>	<b>3,413</b>	<b>30,211</b>	<b>(327)</b>	<b>4,877</b>	<b>3,537</b>	<b>85</b>	<b>1,700</b>	<b>(38,749)</b>	<b>18,676</b>	<b>23,423</b>	

## Condensed Consolidated Statement of Cash Flows – Unaudited

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Net cash used in operating activities	<b>(13,782)</b>	(8,144)
Net cash used in investing activities	<b>(100,456)</b>	(5,047)
Net cash generated from financing activities	<b>125,869</b>	274
Net increase/(decrease) in cash and cash equivalents	<b>11,631</b>	(12,917)
Cash and cash equivalents, at beginning of period	<b>16,240</b>	20,776
Effect of foreign exchange rate changes	<b>162</b>	11
Cash and cash equivalents, at end of period	<b>28,033</b>	7,870
Analysis of the balance of cash and cash equivalents		
Cash at banks and in hand	<b>28,033</b>	7,870



Notes:

### **1. Basis of Presentation**

The unaudited consolidated financial statements for the three months and six months ended 30 June 2010 have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

These financial statements should be read, where relevant, in conjunction with the 2009 annual report.

The accounting policies and methods of computation used in the preparation of these financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2009.

### **2. Revenue**

Revenue, which is also the Group's turnover, represents the income generated from the sale of highly purified silicon and the publication of magazines.

### **3. Loss Before Income Tax**

During the three months and six months ended 30 June 2010, loss before income tax is arrived at after charging depreciation and amortisation of approximately HK\$2,149,000 and HK\$2,479,000 respectively (three months and six months ended 30 June 2009: HK\$799,000 and HK\$1,439,000 respectively) in respect of the Group's property, plant and equipment.

#### 4. Segment Information

The Group has identified its operating segment and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation and review of performance.

The Group's operating businesses are organised and managed separately according to the nature of product and service, with each segment representing a strategic business segment that offers different product and service in Hong Kong, Mainland China and Brazil market.

The Company is an investment holding company and the principal places of the Group's operation in service are Hong Kong, Mainland China and Brazil. For the purpose of segment information disclosures under HKFRS 8, the Group regarded service in Hong Kong, Mainland China and Brazil as its country of domicile.

Information regarding the Group's reportable segments provided to the Group's most senior management is set out below:

##### Six months ended 30 June 2010

	Mineral resources exploration HK\$'000	Silicon products HK\$'000	Publications HK\$'000	Total HK\$'000
Reportable segment revenue (external customers)	–	23,723	12,491	36,214
Reportable segment results	(1,772)	(3,012)	(400)	(5,184)
Reportable segment assets	1,986,879	80,281	10,330	2,077,490
Reportable segment liabilities	669,827	40,946	11,417	722,190
Capital expenditure	–	–	93	93
Interest income	–	15	153	168
Interest expense	6	348	–	354
Depreciation and amortisation	95	1,920	134	2,149



#### 4. Segment Information (Continued)

Six months ended 30 June 2009

	Mineral resources exploration HK\$'000	Silicon products HK\$'000	Publications HK\$'000	Total HK\$'000
Reportable segment revenue (external customers)	–	1,798	10,464	12,262
Reportable segment results	–	(2,123)	(1,247)	(3,370)
Reportable segment assets	–	118,662	7,439	126,101
Reportable segment liabilities	–	21,255	8,351	29,606
Capital expenditure	–	8,959	–	8,959
Interest income	–	53	43	96
Interest expense	–	420	–	420
Depreciation and amortisation	–	1,598	28	1,626

#### 4. Segment Information (Continued)

Reportable segment revenue represented turnover of the Group. The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the financial statements as follows:

	Six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Reportable segment results	(5,184)	(3,370)
Other operating revenue	735	350
Administrative expenses	(15,038)	(2,323)
Other finance costs	(10,397)	(2,064)
	<b>(29,884)</b>	(7,407)

  

	As at	As at
	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Reportable segment assets	2,077,490	91,878
Property, plant and equipment	514	623
Goodwill	34,140	–
Prepayments and other receivables	2,817	596
Advances to an acquiring business	124,112	–
Financial assets at fair value through profit or loss	73,233	–
Cash and cash equivalents	3,346	1,107
	<b>2,315,652</b>	94,204
Reportable segment liabilities	722,190	51,192
Other payables, accrued expenses and receipts in advance	1,101	857
Convertible notes	173,336	–
Loans from ultimate holding company	183,875	49,026
	<b>1,080,502</b>	101,075

#### 4. Segment Information (Continued)

The Group's revenues from external customers and its non-current assets (other than goodwill) are divided into the following geographical areas:

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenues from external customers		
Hong Kong	12,491	10,464
Mainland China	23,723	1,798
Reportable segment revenue from external customers	36,214	12,262

  

	As at	As at
	30 June	31 December
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Non-current assets		
Hong Kong	732	2,962
Mainland China	51,263	50,756
Brazil	1,969,388	–
Reportable segment non-current assets	2,021,383	53,718

The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the non-current assets is based on the physical location of the asset.

#### 5. Income Tax Expense

No Hong Kong profits tax was provided as the Group had no estimated assessable profit arising in or derived from Hong Kong during the three months and six months ended 30 June 2010 (three months and six months ended 30 June 2009: Nil). No PRC enterprise income tax was provided as the Group has accumulated tax losses brought forward.

#### 6. Dividend

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

## **7. Loss per Share**

The calculation of basic loss per share for the three months and six months ended 30 June 2010 are based on the loss attributable to the owners of the Company of HK\$24,666,000 and HK\$28,076,000 respectively (three months and six months ended 30 June 2009: HK\$2,983,000 and HK\$6,390,000 respectively) and on the weighted average of approximately 6,113,883,716 shares and 5,841,854,722 in issue for the three months and six months ended 30 June 2010 respectively (three months and six months ended 30 June 2009: 3,412,719,716 shares in issue).

No diluted loss per share for the three months and six months ended 30 June 2010 have been presented because the outstanding share options and convertible notes had an anti-dilutive effect.

## **8. Exploration and evaluation assets**

Exploration and evaluation assets include topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure incurred prior to acquiring legal rights to explore an area is written off as incurred. Exploration and evaluation assets acquired in a business combination are initially recognised at fair value. They are subsequently stated at cost less accumulated impairment.

When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and evaluation costs are transferred to tangible or intangible assets according to the nature of the exploration and evaluation assets. If any project is abandoned during the exploration and evaluation stage, the related exploration and evaluation assets thereon will be written off to profit or loss.

## **9. Goodwill**

Goodwill represents the excess of the cost of an acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the acquiree, as at the date of acquisition. Goodwill is carried at cost less any accumulated impairment losses. Goodwill is tested annually for impairment. Impairment losses on goodwill are not reversed.

## **10. Deposits**

The amounts represented the Group's deposits paid for the acquisition of property, plant and equipment as at 31 December 2009.

## **11. Advances to an acquiring business**

Advances to an acquiring business are unsecured, interest-free and repayable on the business day immediately following the date when the acquisition of the business is completed. The advances shall be used exclusively for the purposes of completing the mineral resources exploration work of the acquiring business.

## **12. Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

### 13. Borrowings

	Notes	Original currency	As at 30 June 2010 HK\$'000 (Unaudited)	As at 31 December 2009 HK\$'000 (Unaudited)
<b>Non-current</b>				
Government loans – unsecured	(i)	RMB	–	597
<b>Current</b>				
Government loans – unsecured	(i)	RMB	2,407	1,784
Bank loans – unsecured	(ii)	RMB	5,731	5,670
Other loans – unsecured	(iii)	RMB	5,036	6,921
			<b>13,174</b>	14,375
<b>Total borrowings</b>			<b>13,174</b>	14,972

Notes:

- (i) Government loans comprise an interest free loan of RMB1,100,000 (approximately HK\$1,261,000) (the “Government Interest Free Loan”) granted by the local government of the PRC. The local government of the PRC agreed to waive the repayment of the Government Interest Free Loan on the conditions that the projects in the local county satisfied the requirements set by the local government. Other government loans of RMB1,000,000 (approximately HK\$1,146,000) are unsecured and interest-free.
- (ii) Bank loan was guaranteed by 濟寧市天翔機械制造有限公司. The Group has not recognised the financial impact in respect of this guarantee as its fair value cannot be reliably measured and no transaction price was recorded. The interest rate of bank loans is 5.75% (2009: 5.75%) per month.
- (iii) Other loans are unsecured and bear floating interest rate which is based on the monthly interest rate of The People’s Bank of China.
- (iv) The Group provided guarantee of approximately RMB3,000,000 (approximately HK\$3,405,000) to the bank in connection with banking facilities granted by the bank to 濟寧市天翔機械制造有限公司 and no provision for the Group’s obligation under the guarantee contract has been made as the directors considered that it was not probable that the repayment of this borrowing would be in default.

### 14. Loans From Ultimate Holding Company

The loans are unsecured and repayable in the amount of HK\$45,000,000 on 5 June 2011, in the amount of HK\$2,000,000 on 24 November 2011, in the amount of HK\$1,000,000 on 20 April 2012, in the amount of HK\$1,000,000 on 7 August 2012, in the amount of HK\$2,000,000 on 8 November 2012, in the amount of HK\$2,000,000 on 7 January 2013, in the amount of HK\$40,000,000 on 25 March 2013, in the amount of HK\$46,800,000 on 16 April 2013, in the amount of HK\$4,000,000 on 4 May 2013 and in the amount of HK\$40,000,000 on 2 June 2013. The loans are interest-free in the first two years and bear interest at prime rate minus 1.25% per annum in the third year.

## **15. Loan From A Minority Equity Holder of A Subsidiary**

The loan is unsecured interest-free and repayable in the amount of HK\$6,800,000 on 21 October 2012.

## **16. Convertible Notes**

The convertible notes were issued on 24 March 2010. The notes were convertible into ordinary shares of the Company after two years from the date of issue of the notes and before the maturity date on 23 March 2015. The notes can be converted into 400,000,000 ordinary shares of the Company.

The convertible notes are interest-free and not redeemable by the noteholder but the Company has the sole and absolute discretion on redemption.

## **Management Discussion and Analysis**

### **Business Review and Strategy**

For the first half of 2010, the Group recorded turnover of HK\$36.2 million which comprised HK\$23.7 million from the sale of highly purified silicon and HK\$12.5 million from the publication of magazines. Loss for the period was HK\$29.9 million which is HK\$22.5 million higher than that for the same period last year. The increase was mainly due to the increase in amortisation of share options cost of HK\$10.7 million, deemed loan interest of HK\$2.0 million and deemed convertible notes interest of HK\$8.1 million that have no impact to the Group's cashflows.

The silicon market has been fully recovered from the 2008 financial crisis. Silicon metal prices in China have been increased by more than 30% compared to a year ago. Benefited from the market rebound, our silicon business achieved a record high half year turnover of HK\$23.7 million during the period, representing approximately 13.2 times the turnover of the same period in 2009. Segment loss for the period was increased by 42% to HK\$3.0 million, which was mainly due to the increase in the selling and distribution costs for the increased turnover volume.

Our publication business accounted for a turnover of HK\$12.5 million, representing a 19% increase compared to the same period in 2009. Segment loss decreased from HK\$1.2 million in 2009 to HK\$0.4 million in 2010 which was mainly due to the increase in revenue from holding functions and gatherings of HK\$2.2 million.

On 24 March 2010, the Group has completed the acquisition of 66% equity interest in Xianglan Do Brasil Mineracao Ltda. ("Xianglan Brazil"). As Xianglan Brazil is engaged in the business of mineral resources exploration, Xianglan Brazil did not contribute revenue to the Group. Segment loss of HK\$1.8 million represented administrative expenses of Xianglan Brazil in the reporting period.

## Management Discussion and Analysis (Continued)

### Prospects

The Group under the existing management has been continuously looking for appropriate investment opportunities in the energy and resources sector. To implement such strategy, the Group has acquired Xianglan Brazil, a manganese exploration company holding three manganese exploration licenses in Bahia, Brazil. In order to enable the Group to fully implement its strategy in the energy and resources sector, on 5 March 2010, it has entered into a share purchase agreement to acquire the entire share capital of an iron exploration company, Sul Americana de Metais S.A. ("SAM") which holds 85 iron exploration licenses in Minas Gerais and Bahia, Brazil. The directors of the Company consider that the acquisition of the entire interest of SAM has milestone significance to the Group's investments in the mining sector.

Subsequent to the signing of the acquisition agreement of SAM, on 26 March 2010, the Company has entered into a strategic cooperation agreement with Xinwen Mining Group Co., Ltd. in relation to the provision of technical support and financial resources to and the investment in the Company.

On 16 June 2010 and 18 June 2010, SAM has entered into memorandum of understanding (MOU) respectively with Minas Gerais and Bahia state governments in the Federative Republic of Brazil ("Brazil") in relation to business cooperation. Under the MOU, the two state governments agreed to provide support and assistance to SAM during its implementation and operation, particularly with regard to the financing and licensing of the iron mining project.

The directors of the Company expect that the above acquisitions will enlarge the business scope of the Company and the development and mining activities will be the Group's principal business in the near future.

### Liquidity and Financial Resources

During the six months ended 30 June 2010, the Group's operation was mainly financed by the internal financial resources and the substantial shareholder of the Group.

As at 30 June 2010, the Group had net current assets of HK\$210.2 million (31 December 2009: net current liabilities of HK\$5.0 million). Current assets comprised inventories of HK\$7.9 million, cash and cash equivalents of HK\$28.0 million, trade and bills receivables of HK\$5.7 million, prepayments and other receivables of HK\$18.4 million, advances to an acquiring business of HK\$124.1 million and financial assets through profit or loss of HK\$73.2 million. Current liabilities comprised trade payables of HK\$8.3 million, other payables, accrued expenses and receipts in advance of HK\$25.6 million and borrowings of HK\$13.2 million.

As at 30 June 2010, the gearing ratio of the Group which is measured by total loans and borrowings to total equity was 0.16 (31 December 2009: not available).

The Board is of opinion that taking into account the internal financial resources of the Group and the financial support provided by the substantial shareholder, the Group has sufficient working capital for its present requirements.

## Management Discussion and Analysis (Continued)

### Major Acquisitions

On 7 November 2009, the Company entered into an equity transfer agreement with Brilliant People Limited and Shandong Zhi Xiang Trading Limited to acquire a 66% equity interest of Xianglan Brazil. Xianglan Brazil is a company incorporated in Brazil and its principal activity is the identification and exploration of mineral resources and it holds three exploration licenses in the Bahia State of Brazil. On 15 March 2010, a unanimous resolution was passed by the shareholders of the Company in an extraordinary general meeting to approve the acquisition on Xianglan Brazil. On 23 March 2010, all conditions precedents to the equity transfer agreement to acquire Xianglan Brazil have been fulfilled and on 24 March 2010, the Group completed the acquisition of Xianglan Brazil. Xianglan Brazil is a major stepping stone to the Group in entering the South America mining market. Its principal business will be positioned as risk exploration of elementary mines, trading of exploration licenses, exploitation, beneficiation, mineral processing and mineral trading.

On 5 March 2010, the Company entered into a legally binding definitive agreement with Votorantim Novos Negocios Ltda. ("VNN") and its subsidiaries in which the Group will acquire 100% interest of Sul Americana de Metais S.A. ("SAM") for USD390 million.

The consideration of USD390 million will be settled by five installments upon the completion of: shareholders' approval of the Group; receipt of resources confirmation to the agreed level of and achievement of beneficiation standard and the cost of production to an agreed level; receipt of relevant permits necessary for the mining operation; commencement of port operation and commencement of mining operation. The five installments will be divided into USD10 million, USD65 million, USD115 million, USD100 million and USD100 million.

During the period from the current stage of the mine to the commencement of operation, VNN will provide necessary assistance to SAM in obtaining all the required government licenses for mining in Brazil. If the resources confirmation or the relevant government permits are obtained before schedule; or if the FOB cost is under BRL44 per tonne (adjustable for inflation), then VNN will receive rewards of not more than USD2 million; USD3 million or USD10 million respectively. If the resources confirmation or the relevant government permits are delayed, the consideration will be deducted by a maximum of USD3.75 million. Accordingly, the maximum amount of consideration to be paid by the Group for the SAM acquisition will be USD405 million and the minimum consideration will be USD386.25 million. Apart from that, the Group will provide a loan of USD35 million in total to SAM by seven installments in one year from the signing of the agreement for the resource confirmation and beneficiation tests.

SAM is a limited company incorporated in the Federative Republic of Brazil ("Brazil") holding approximately 85 exploration licenses that are mainly iron ores.



## **Management Discussion and Analysis** (Continued)

### **Major Acquisitions** (Continued)

The exploration areas are located along Minas Gerais and Bahia in Brazil, covering an area of approximately 1,220 square kilometres. These mines are divided into nine blocks, namely Block 5, 6, 7, 8, 9, 10, 11, 12 and 13. The phase one drilling program of 98 drill holes totaling 12,616 metres has been completed in Block 7 and Block 8 situated in Minas Gerais covering 192 square kilometres. According to a JORC compliant report prepared by Coffey Mining, a well-known global mining consultant, the indicated and inferred resources reached 239 million tonnes and 2,600 million tonnes of ROM (run of mine), average grade at approximately 20% and prospective resources may reach above 6,000 million tonnes of ROM. The nearest port is located at approximately 400 kilometres from Block 8 and Block 7 in a straight line.

According to the loan agreement entered into between the Company and SAM, the Company has remitted USD15.87 million to SAM, for the purposes of resource confirmation and beneficiation tests. Phase two of intensive drilling program in Block 8 has been commenced on 1 May. As of 31 July, 195 drill holes totaling 16,943.49 metres have been completed. All of which have captured iron ores. Target of the phase two drill program is approximately 60,000 metres. SAM plans to construct a processing plant and related infrastructure facilities carrying capacity of 25 million tonnes of 65% iron pellet feed per year.

As at the date of this report, the acquisition of SAM has not been completed and a circular setting out the details of the acquisition will be published by the Company in due course.

### **Capital Commitments**

As at 30 June 2010, the Group has contracted but not provided for capital commitments in relation to the acquisition of SAM amounting to USD390 million (equivalent to approximately HK\$3,023 million).

### **Contingent Liabilities**

As at 30 June 2010, the Group did not have any significant contingent liabilities.

### **Progress of Exploration Activities**

During the six months ended 30 June 2010, the Group has no exploration, development or mining production activities.

## Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2010, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, relating to the required standards of dealing by directors of listed issuers, to be notified to the Company and the Stock Exchange were as follows:

### (1) Long positions in the ordinary shares of HK\$0.001 each of the Company

Name of director	Interests in shares				Approximate percentage of interests
	Beneficial owner	Interest of controlled corporation	Interest of spouse	Total	
HE Xuechu	–	4,095,000,000 (Note)	21,286,000	4,116,816,000	67.34%

Note: The 4,095,000,000 shares were held by Hong Bridge Capital Limited ("Hong Bridge"). Hong Bridge is wholly owned by Mr. HE Xuechu.

## Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures (Continued)

### (2) Long positions in the underlying shares of the Company

#### Share Option Scheme

The Company's existing share option scheme (the "Scheme") was adopted on 20 December 2001 and became effective on 8 January 2002. Particulars and movements of the outstanding share options granted under the Scheme during the six months ended 30 June 2010 were as follows:

Name or category of participant	Number of share options					Outstanding as at 30/06/2010	Date of grant of share options (Note a)	Exercise period of share options	Exercise price per share option HK\$	Price immediately preceding the grant date of share options (Note b) HK\$	Price immediately preceding the exercise date of share options (Note c) HK\$
	Outstanding as at 01/01/2010	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period						
<b>Director</b>											
LIU Wei, William	10,000,000	-	-	-	-	10,000,000	22/11/2007	22/05/2008-07/01/2012	1.20	1.20	N/A
	-	30,000,000	-	-	-	30,000,000	06/05/2010	06/05/2011-05/05/2018	2.60	2.13	N/A
SHI Lixin	10,000,000	-	-	-	-	10,000,000	22/11/2007	22/05/2008-07/01/2012	1.20	1.20	N/A
	-	20,000,000	-	-	-	20,000,000	06/05/2010	06/05/2011-05/05/2018	2.60	2.13	N/A
YAN Weimin	-	30,000,000	-	-	-	30,000,000	06/05/2010	06/05/2011-05/05/2018	2.60	2.13	N/A
ANG Siu Lun, Lawrence	-	15,000,000	-	-	-	15,000,000	06/05/2010	06/05/2011-05/05/2018	2.60	2.13	N/A
CHAN Chun Wai, Tony	-	3,000,000	-	-	-	3,000,000	06/05/2010	06/05/2011-05/05/2018	2.60	2.13	N/A
FOK Hon	-	3,000,000	-	-	-	3,000,000	06/05/2010	06/05/2011-05/05/2018	2.60	2.13	N/A
MA Gang	-	3,000,000	-	-	-	3,000,000	06/05/2010	06/05/2011-05/05/2018	2.60	2.13	N/A
Sub-total	20,000,000	104,000,000	-	-	-	124,000,000					
<b>Employee</b>											
In aggregate	1,200,000	-	(1,164,000)	-	-	36,000	22/11/2007	22/05/2008-07/01/2012	1.20	1.20	2.52
	-	23,700,000	-	-	-	23,700,000	06/05/2010	06/05/2011-05/05/2018	2.60	2.13	N/A
Sub-total	1,200,000	23,700,000	(1,164,000)	-	-	23,736,000					
<b>Others</b>	240,000	-	-	-	-	240,000	15/04/2002	15/04/2003-07/01/2012	0.69	0.68	N/A
Total	21,440,000	127,700,000	(1,164,000)	-	-	147,976,000					

## Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures (Continued)

### (2) Long positions in the underlying shares of the Company (Continued) Share Option Scheme (Continued)

Notes:

- (a) Share options granted on 15 April 2002 are subject to a vesting period and becoming exercisable in whole or in part in the following manner:

From the date of grant of share options	Exercisable Percentage
In the first year	Nil
In the second year	33 $\frac{1}{3}$ %
In the third year	33 $\frac{1}{3}$ %
After the third year	33 $\frac{1}{3}$ %

Share options granted on 22 November 2007 are subject to a vesting period of six months and becoming exercisable in whole after then.

Share options granted on 6 May 2010 are subject to a vesting period and becoming exercisable in whole or in part in the following manner:

From the date of grant of share options	Exercisable Percentage
In the first year	Nil
In the second year	25%
After the second year	75%

- (b) The price of the Shares disclosed as immediately preceding the grant date of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.
- (c) The weighted average closing price of the Shares immediately before the date on which the options were exercised.
- (d) 127,700,000 share options were granted during the six months ended 30 June 2010, a total of HK\$13.00 in respect of share options was received and the value of options granted during the period was approximately HK\$116.8 million.

## Convertible Securities, Options, Warrants or Similar Rights

On 24 March 2010, convertible notes of HK\$400 million with an initial conversion price of HK\$1.00 per conversion share of the Company were issued.

During the six months ended 30 June 2010, there was no conversion of the Company's outstanding convertible notes.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 30 June 2010, any interests or short positions in the 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 required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules.

## Substantial Shareholders' and Other Persons' Interests and Short Positions in the Shares and Underlying Shares

So far as is known to any Director or chief executive of the Company, as at 30 June 2010, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

### Long positions of substantial shareholders in the ordinary shares of HK\$0.001 each of the Company

Name of shareholder	Interest in shares				Approximate percentage of interests
	Direct interest	Interest of controlled corporation	Interest of spouse	Total interests in shares	
Hong Bridge (Note a)	4,095,000,000	–	–	4,095,000,000	66.98%
HE Xuechu	–	4,095,000,000	21,286,000	4,116,816,000	67.34%
FOO Yatyan (Note b)	21,286,000	–	4,095,000,000	4,116,816,000	67.34%
Brilliant People Limited	1,000,000,000 (Note c)	–	–	1,000,000,000	16.36%
Shandong Zhi Xiang Trading Limited	–	1,000,000,000 (Note c)	–	1,000,000,000	16.36%
Zheng He Xiang	–	1,000,000,000 (Note c)	–	1,000,000,000	16.36%
Liu Heng	–	1,000,000,000 (Note c)	–	1,000,000,000	16.36%

## **Substantial Shareholders' and Other Persons' Interests and Short Positions in the Shares and Underlying Shares** (Continued)

### **Long positions of substantial shareholders in the ordinary shares of HK\$0.001 each of the Company** (Continued)

Notes:

- (a) Hong Bridge is wholly owned by Mr. HE Xuechu, the Chairman and a director of the Company.
- (b) Ms. FOO Yatyan is the spouse of Mr. HE Xuechu.
- (c) The 1,000,000,000 shares held by Brilliant People Limited represent 600,000,000 shares and 400,000,000 underlying shares. Shandong Zhi Xiang Trading Limited, Zhang He Xiang and Liu Hang are interested in the entire issued share capital of Brilliant People Limited.

Save as disclosed above, as at 30 June 2010, the Company had not been notified by any other persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

### **Directors' and Management Shareholders' Interests in Competing Business**

Mr. FOK Hon, an Independent Non-Executive Director of the Company, is also the executive director of All Leaders Publication Group Limited. Since All Leaders Publication Group Limited is engaged in the media and publication business, Mr. FOK is regarded as interested in such competing business of the Group.

Save as disclosed above, none of the Directors or the management shareholders (as defined under the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete or had any conflicts of interest with the business of the Group for the six months ended 30 June 2010.

### **Code on Corporate Governance Practices**

The Company complied with the Code on Corporate Governance Practices (the "CG Code") of the GEM Listing Rules throughout the six months ended 30 June 2010.

### **Compliance with the Model Code**

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules for Directors.

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standards of dealings and its code of conduct regarding the directors' securities transaction throughout the six months ended 30 June 2010.

## Audit Committee

The Company established an audit committee with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting and internal control procedures of the Group. The audit committee comprises three members, Mr. CHAN Chun Wai, Tony (Committee Chairman), Mr. FOK Hon and Mr. MA Gang, who are Independent Non-Executive Directors of the Company.

The Group's unaudited results for the six months ended 30 June 2010 were reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

## Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

As at the date of this report, the Board comprises (1) Mr. HE Xuechu, Mr. LIU Wei, William and Mr. SHI Lixin as Executive Directors; (2) Mr. YAN Weimin and Mr. ANG Siu Lun, Lawrence as Non-Executive Directors and (3) Mr. CHAN Chun Wai, Tony, Mr. FOK Hon and Mr. MA Gang as Independent Non-Executive Directors.

On behalf of the Board

**Liu Wei, William**

*Director and CEO*

Hong Kong, 12 August 2010