



森源鈦礦控股有限公司*

XIAN YUEN TITANIUM RESOURCES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 353)

**INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2008**

The Board of Directors (the “**Board**”) of Xian Yuen Titanium Resources Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed results of the Company and its subsidiaries (collectively known as the “**Group**”) for the six months ended 30 June 2008 (the “**Period**”). The unaudited condensed consolidated financial statements were not audited but have been reviewed by the Company’s audit committee (the “**Audit Committee**”).

CONDENSED CONSOLIDATED INCOME STATEMENT

For the period ended 30 June 2008

		Unaudited	
		Six months ended 30 June	
		2008	2007
			(restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations:			
Revenue	4	—	3,072
Cost of sales		—	(2,930)
Gross profit		—	142
Other income	4	2,995	215
Administrative expenses		(23,782)	(11,765)
Other operating expenses		(28,035)	(800)
Operating loss		(48,822)	(12,208)
Finance costs	6	(7,412)	(20)
Loss before income tax	7	(56,234)	(12,228)
Income tax expense	8	—	—
Loss after tax from continuing operations		(56,234)	(12,228)
Discontinued operations:			
Loss for the period from discontinued operations	10	(16,098)	(11,710)
Loss for the period		(72,332)	(23,938)

* For identification purpose only

		Unaudited	
		Six months ended 30 June	
		2008	2007
			(restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Attributable to:			
Equity holders of the Company		(66,964)	(23,938)
Minority interests		(5,368)	—
		<u> </u>	<u> </u>
Loss for the period		<u>(72,332)</u>	<u>(23,938)</u>
Loss per share			
	<i>11</i>		
— Basic (HK cents)			
From continuing and discontinued operations		(4.55)	(3.78)
From continuing operations		(3.46)	(1.93)
		<u> </u>	<u> </u>
— Diluted (HK cents)			
From continuing and discontinued operations		N/A	N/A
From continuing operations		N/A	N/A
		<u> </u>	<u> </u>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

		Unaudited 30 June 2008 HK\$'000	Audited 31 December 2007 HK\$'000
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	13,363	49,129
Prepaid lease payments		8,730	13,926
Goodwill		611,485	611,485
Available-for-sale financial assets	13	5,871	—
Exploration and evaluation assets		32,113	27,636
		671,562	702,176
Current assets			
Inventories		6,211	4,154
Trade receivables	14	1,074	17,219
Prepayments, deposits and other receivables		45,174	95,914
Cash at banks and in hand		7,663	50,725
		60,122	168,012
Assets classified as held for sale	10(a)	19,300	—
		79,422	168,012
Current liabilities			
Trade payables	15	20,892	19,704
Deposits received, other payables and accruals		23,739	43,022
Finance lease payables		93	91
Other borrowings	16	5,650	5,340
		50,374	68,157
Net current assets		29,048	99,855
Total assets less current liabilities		700,610	802,031
Non-current liabilities			
Finance lease payables		91	130
Amounts due to minority shareholders		—	37,602
Convertible bonds	17	83,888	139,671
		83,979	177,403
Net assets		616,631	624,628
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	19	15,687	13,587
Reserves		573,662	577,460
		589,349	591,047
Minority interests		27,282	33,581
Total equity		616,631	624,628

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the period ended 30 June 2008

1. GENERAL INFORMATION

Xian Yuen Titanium Resources Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. Its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, British West Indies and its principal place of business is Suites 5303-04, 53rd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The principal activity of the Company is investment holding. The principal activities of its subsidiaries consisted of investment holding, exploration of mine and trading of goods. The Group has ceased and sold its carpet manufacturing and trading of business in the current period (note 10).

2. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). These unaudited condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and thereby they should be read in conjunction with 2007 audited financial statements included in the Company’s 2007 annual report.

The unaudited condensed consolidated interim financial statements have been reviewed by the Company’s audit committee.

3. ACCOUNTING POLICIES

The interim financial statements have been prepared under historical cost convention.

The accounting policies used in preparing the interim financial statements are consistent with those followed in the Group’s annual financial statements for the year ended 31 December 2007.

(a) Impact of new and revised HKFRSs which are effective in the current interim period

All the new and revised standards and interpretations of Hong Kong Financial Reporting Standards (“HKFRSs”) which are effective for annual period beginning on 1 January 2008 and relevant to the Group have been adopted by the Group. These did not result in significant changes in the Group’s accounting policies and had no significant impact on the current or the prior accounting periods.

(b) Impact of new and revised HKFRSs which are issued but not yet effective

The Group has not early adopted the following new and revised HKFRSs that have been issued but are not yet effective in the current period:

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combination ³
HKFRS 8	Operating Segments ¹
Amendments to HKAS 1 (Revised)	Presentation of Financial Statements — Puttable financial instruments and obligations arising on liquidation ¹
Amendments to HKAS 32	Financial Instruments: Presentation — Puttable financial instruments and obligations arising on liquidation ¹
Amendments to HKAS 39	Financial Instruments: Recognition and Measurement — Puttable financial instruments and obligations arising on liquidation ¹
Amendments to HKFRS 7	Financial Instruments: Disclosures — Puttable financial instruments and obligations arising on liquidation ¹
HK(IFRIC) — Int 13	Customer Loyalty Programmes ²
HK(IFRIC) — Int 15	Agreements for Construction of Real Estate ¹
HK(IFRIC) — Int 16	Hedges of a Net Investment on a Foreign Operation ⁴
Amendments to HK(IFRIC) — Int 2	Members' Services in Co-operative Entities and Similar Instruments ¹

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

² Effective for annual periods beginning on or after 1 July 2008

³ Effective for annual periods beginning on or after 1 July 2009

⁴ Effective for annual periods beginning on or after 1 October 2008

The Group is in the process of assessing the impact of these new and revised HKFRSs upon initial application. The Group anticipates that these new and revised HKFRSs are unlikely to have any material impact on the Group's financial statements except for HKAS 1 (Revised) which will affect the presentation of financial statements as disclosed in the 2007 annual report.

4. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents net invoiced value of goods sold after allowances for returns and trade discounts.

An analysis of the Group's revenue and other income is as follows:

	Continuing operations		Discontinued operations		Consolidated	
	Unaudited		Unaudited		Unaudited	
	Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(restated)		(restated)		(restated)
Revenue						
Sale of goods	<u>—</u>	<u>3,072</u>	<u>17,924</u>	<u>14,386</u>	<u>17,924</u>	<u>17,458</u>
Other income						
Interest income from						
loan receivables	2,825	215	4	—	2,829	215
Rental income	—	—	20	821	20	821
Exchange gain	—	—	511	—	511	—
Sundry income	<u>170</u>	<u>—</u>	<u>11</u>	<u>4</u>	<u>181</u>	<u>4</u>
	<u>2,995</u>	<u>215</u>	<u>546</u>	<u>825</u>	<u>3,541</u>	<u>1,040</u>

5. SEGMENT INFORMATION

(a) Primary reporting format — business segments

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. Summary of details of the business segments are as follows:

- (i) the exploration of mine (Commercial operations has not yet been commenced during the period);
- (ii) the trading of goods;
- (iii) the manufacturing of carpets segment represents the manufacturing and sale of carpets; and
- (iv) the trading of carpets segment represents the trading of carpets of other renowned brand names.

There was no intersegment sale and transfer during the Period (Six months ended 30 June 2007: Nil).

During the Period, the Board of Directors resolved to dispose of the manufacturing and trading of carpets (note 10).

	Continuing operations				Discontinued operations				Consolidated	
	Exploration of mine		Trading of goods		Manufacturing of carpets		Trading of carpets		Unaudited	
	Unaudited		Unaudited		Unaudited		Unaudited		Unaudited	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June		30 June		30 June	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(restated)		(restated)		(restated)		(restated)		(restated)
Segment revenue:										
Sales to external customers	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,072</u>	<u>4,044</u>	<u>4,904</u>	<u>13,880</u>	<u>9,482</u>	<u>17,924</u>	<u>17,458</u>
Segment results	<u>(5,173)</u>	<u>—</u>	<u>(10,992)</u>	<u>(356)</u>	<u>(22,172)</u>	<u>(4,786)</u>	<u>6,384</u>	<u>(6,924)</u>	<u>(31,953)</u>	<u>(12,066)</u>
Unallocated other operating income									2,004	215
Loss on deemed disposal of subsidiaries									(17,233)	—
Unallocated other expense									(17,428)	(12,067)
Finance costs									<u>(7,722)</u>	<u>(20)</u>
Loss before income tax									(72,332)	(23,938)
Income tax expense									<u>—</u>	<u>—</u>
Loss for the period									<u>(72,332)</u>	<u>(23,938)</u>

6. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	Unaudited		Unaudited		Unaudited	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(restated)		(restated)		(restated)
Interest on other borrowing due within one year	<u>—</u>	<u>—</u>	<u>310</u>	<u>—</u>	<u>310</u>	<u>—</u>
Finance leases	<u>6</u>	<u>20</u>	<u>—</u>	<u>—</u>	<u>6</u>	<u>20</u>
Imputed interest on convertible bonds	<u>7,406</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,406</u>	<u>—</u>
	<u>7,412</u>	<u>20</u>	<u>310</u>	<u>—</u>	<u>7,722</u>	<u>20</u>

7. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging the following:

	Continuing operations		Discontinued operations		Consolidated	
	Unaudited		Unaudited		Unaudited	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(restated)		(restated)		(restated)
Charging:						
Cost of inventories recognised as expense	—	1,346	15,181	18,715	15,181	20,061
Depreciation	1,481	942	1,067	3,151	2,548	4,093
Impairment loss of goodwill	—	1,081	—	—	—	1,081
Amortisation of prepaid lease payments	90	—	56	57	146	57
Loss on deemed disposal of subsidiaries (<i>note 18</i>)	17,233	—	—	—	17,233	—
Provision for impairment loss of trade receivables	10,802	—	—	—	10,802	—
Staff cost, including directors' emoluments	<u>11,926</u>	<u>5,335</u>	<u>2,441</u>	<u>3,013</u>	<u>14,367</u>	<u>8,348</u>

8. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided as the Group had no estimated profits arising in or derived from Hong Kong for both periods. PRC foreign enterprise income tax has not been provided as the PRC subsidiaries incurred a loss for taxation purposes for both periods.

9. DIVIDEND

The Board do not recommend the payment of any interim dividend for the six months ended 30 June 2008 (Six months ended 30 June 2007: Nil).

10. DISCONTINUED OPERATIONS

- (a) On 16 January 2008, the Group entered into a non-binding Memorandum of Understanding (the “MOU”) such that the entire issued share capital of a wholly owned subsidiary, namely Orient Carpet Manufacturing (HK) Limited (“OCM”), which has a direct wholly owned subsidiary, Hui Zhou Orient Carpet Manufacturing Company Limited (“HZOCM”), is to be sold to an independent third party for a consideration at HK\$19,300,000 except for all current assets and all liabilities recorded in the books of OCM and HZOCM which shall remain with the Group as at 30 June 2008. Both OCM and HZOCM are principally engaged in manufacturing and sale of carpets.

The major classes of assets of OCM and HZOCM at 30 June 2008 which are classified as assets held for sale are as follows:

	Fair value HK\$'000	Carrying amount upon being classified as held for sale HK\$'000
Assets		
Property, plant and equipment	13,879	31,841
Prepaid lease payments	5,421	5,421
	<u>19,300</u>	
Assets classified as held for sale	<u>19,300</u>	

- (b) On 10 March 2008, a Share Sale Agreement was entered into between the Group and another third party such that all 51% equity interest held by the Group in International Carpet Company Limited (“ICC”) has been sold for a consideration of HK\$200,000. ICC is principally engaged in trading of carpets of other renowned brand names.

	Unaudited Six months ended 30 June 2008 HK\$'000
Net liabilities disposed of:	
Property, plant and equipment	30
Prepayments, deposits and other receivables	4,353
Inventories	131
Trade receivables	5,739
Minority interests	217
Amount due from a minority shareholder	1,366
Cash and cash equivalents	763
Trade payables	(2,516)
Deposits received, other payables and accruals	(14,836)
	<u>(4,753)</u>
Gain on disposal of a subsidiary	4,953
	<u>200</u>
Total consideration	<u>200</u>
Satisfied by:	
Cash	<u>200</u>

Analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary:

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

Cash consideration	200
Cash and bank balances disposed of	(763)
Net outflow of cash and cash equivalents in respect of disposal of a subsidiary	(563)

- (c) An analysis of the results and cash flows of the discontinued operations included in the consolidated income statement and the consolidated cash flow statement is as follow:

	Unaudited Six months ended 30 June 2008				Unaudited Six months ended 30 June 2007			
	HZOCM	OCM	ICC	Total	HZOCM	OCM	ICC	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	4,044	—	13,880	17,924	4,904	1,640	7,842	14,386
Cost of sales	(6,570)	—	(10,907)	(17,477)	(8,232)	(109)	(12,174)	(20,515)
Gross profit/(loss)	(2,526)	—	2,973	447	(3,328)	1,531	(4,332)	(6,129)
Other income	11	4	531	546	3	797	25	825
Selling and distribution expenses	(173)	—	(695)	(868)	(210)	—	(1,158)	(1,368)
Administrative expenses	(1,522)	(527)	(1,682)	(3,731)	(1,251)	(1,324)	(2,332)	(4,907)
Other operating expenses	—	—	—	—	—	—	(131)	(131)
Gain on disposal of a subsidiary	—	827	—	827	—	—	—	—
Operating (loss)/profit from discontinued operations	(4,210)	304	1,127	(2,779)	(4,786)	1,004	(7,928)	(11,710)
Finance costs	—	(310)	—	(310)	—	—	—	—
(Loss)/gain on remeasurement to fair value	(17,962)	—	4,953	(13,009)	—	—	—	—
Loss before income tax from discontinued operations	(22,172)	(6)	6,080	(16,098)	(4,786)	1,004	(7,928)	(11,710)
Income tax expense	—	—	—	—	—	—	—	—
Loss after income tax from discontinued operations	(22,172)	(6)	6,080	(16,098)	(4,786)	1,004	(7,928)	(11,710)
Operating cash flows	249	844	53	1,146	(123)	(201)	35	(289)
Investing cash flows	—	4	(11)	(7)	—	—	—	—
Financing cash flows	—	—	—	—	—	—	—	—
Total net cash inflow/(outflow) from discontinued operations	249	848	42	1,139	(123)	(201)	35	(289)

11. LOSS PER SHARE

The calculation of basic loss per share from continuing operations for the six months ended 30 June 2008 is based on the loss attributable to equity holders of the Company of approximately HK\$50.9 million (Six months ended 30 June 2007: loss of approximately HK\$12.2 million) and the weighted average of 1,472,126,000 ordinary shares (Six months ended 30 June 2007: 634,057,000) in issue during the six months ended 30 June 2008.

No diluted loss per share attributable to the equity holders of the Company from continuing operations is presented for the period ended 30 June 2008 as the outstanding convertible bonds were anti-dilutive. No diluted loss per share attributable to the equity holders of the Company from continuing operations was presented for the period ended 30 June 2007 as outstanding share options were anti-dilutive.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2008,

- (a) the Group incurred capital expenditure in furniture, fixture, equipment and leasehold improvements of approximately HK\$279,000 (Six months ended 30 June 2007: approximately HK\$3,020,000).
- (b) Pursuant to the transaction as stated in note 10(a), certain property, plant and equipment of carry value amounting approximately HK\$31,841,000 has been accounted for assets held for sale.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

These are unlisted equity securities state at cost.

14. TRADE RECEIVABLES

The Group normally allows credit terms ranging from 30 to 120 days to established customers. An ageing analysis of the trade receivables, net of provision, as at the balance sheet date, based on the date of recognition of the sale, is as follows:

	Unaudited 30 June 2008 <i>HK\$'000</i>	Audited 31 December 2007 <i>HK\$'000</i>
1-90 days	595	7,871
91-120 days	51	5,899
121-365 days	11,744	3,449
Over 1 year	343	2,677
	12,733	19,896
Less: Provision for impairment of trade receivables	(11,659)	(2,677)
Trade receivables — net	<u>1,074</u>	<u>17,219</u>

15. TRADE PAYABLES

An ageing analysis of the trade payables as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	Unaudited 30 June 2008 HK\$'000	Audited 31 December 2007 HK\$'000
1-90 days	786	9,017
91-120 days	618	5,696
121-365 days	11,694	2,306
Over 1 year	7,794	2,685
	<u>20,892</u>	<u>19,704</u>

16. OTHER BORROWINGS

	Unaudited 30 June 2008 HK\$'000	Audited 31 December 2007 HK\$'000
Other loans unsecured and repayable on demand	<u>5,650</u>	<u>5,340</u>

The Group's other loans bear interest at the fixed rate of 12% per annum and is payable with one-month notice by the lender.

17. CONVERTIBLE BONDS

On 5 November 2007, the Company issued zero coupon convertible bonds Tranche 1 ("CB 1") in the principal amount of HK\$365,000,000 as part of the consideration for the acquisition of Kanson Development Limited ("Kanson"). CB 1 bear no interest with maturity date on 4 November 2012 (the "Maturity Date") and are convertible into shares of the Company at the conversion price of HK\$0.60 per share (subject to the standard adjustment clauses relating to share sub-division, share consolidation, capitalization issues and rights issues) at any time after the issue date. At Maturity Date, the Company may consider liaising with the holders of CB 1 to extend the Maturity Date of CB 1 or the Company may repay CB 1 at any price as to be agreed between the Company and the holders of CB 1.

The fair value of the liability component, included in CB 1, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in the convertible bond equity reserve in shareholders' equity.

The CB 1 recognised in the balance sheet are calculated as follows:

	Unaudited 30 June 2008 HK\$'000	Audited 31 December 2007 HK\$'000
Proceeds of issue	365,467	365,467
Equity component	(189,421)	(189,421)
Liability component on initial recognition	176,046	176,046
Exercise of CB 1	(102,629)	(39,440)
Total imputed interest expense	10,471	3,065
Liability component at the end of the period/year	<u>83,888</u>	<u>139,671</u>

The fair value of the liability component of CB 1 at the date of issue amounted to approximately HK\$176 million.

Interest expense on the bonds is calculated using the effective interest rate method by applying interest rate of 15.70% per annum to the liability component.

During the period ended 30 June 2008, 210,000,000 ordinary shares were issued in aggregate, at the conversion price of HK\$0.60 per share, to the bond holders upon the conversion of CB 1. As a result, there was an increase in the share capital and share premium of HK\$2,100,000 and HK\$126,478,000 respectively.

According to the sale and purchase agreement dated 8 July 2007 with the Group and Ms. Leung Lai Ching Margaret to acquire 51% equity interest in Kanson, another zero-coupon convertible bonds Tranche 2 (“**CB 2**”) with face value of HK\$400,000,000 will be issued on fifth business day following the date of receipt of mining license in respect of the underlying mine. CB 2 bear no interest with maturity date and are convertible into shares of the Company at the conversion price of HK\$0.60 per share (subject to the standard adjustment clauses relating to share sub-division, share consolidation, capitalization issues and rights issues) at any time after the issue date.

As at 30 June 2008, Kanson and its subsidiaries were still in the progress of obtaining the mining license. Thus CB 2 have not been issued and not included in the condensed consolidated financial statements. Details of this transaction are set out in the Company’s circular dated 15 October 2007.

18. DEEMED DISPOSAL OF SUBSIDIARIES

On 10 March 2008, the Company and certain of its subsidiaries and Capital Gain Assets Management Limited (“**Capital Gain**”) entered into a subscription agreement. In consideration of assumption by Capital Gain of the obligation of the Group to contribute approximately US\$4,070,000 (equivalent to approximately HK\$31,746,000) to the registered capital of Hebei Da Sheng Warranty Company Limited (“**Da Sheng**”), the Group agreed to allot and issue 804 ordinary shares of Aurora Logistic Finance Group Inc, a subsidiary of the Company, of US\$1.00 each to Capital Gain. As a result, the Company’s interest in Aurora Logistic Finance Group Inc. has been diluted from 100% to 19.6%.

	Unaudited Six months ended 30 June 2008 <i>HK\$’000</i>
Net assets disposed of:	
Property, plant and equipment	4,056
Prepayments, deposits and other receivables	59,350
Cash and bank balances	9,220
Minority interests	(1,148)
Amounts due to minority shareholders	(40,807)
Other payables	(719)
	29,952
Release of exchange reserve upon disposal	(6,848)
Loss on deemed disposal of subsidiaries	(17,233)
Satisfied by:	
Transfer to available-for-sale financial assets, at cost	5,871

Analysis of the net outflow of cash and cash equivalents in respect of the deemed disposal of subsidiaries:

	Unaudited Six months ended 30 June 2008 <i>HK\$’000</i>
Cash and cash equivalents disposed of	(9,220)
Net outflow of cash and cash equivalents in respect of deemed disposal of subsidiaries	(9,220)

19. SHARE CAPITAL

	<i>Notes</i>	Unaudited 30 June 2008		Audited 31 December 2007	
		Number of <i>shares</i> '000	<i>HK\$'000</i>	Number of <i>shares</i> '000	<i>HK\$'000</i>
Authorised:					
Ordinary shares of HK\$0.01 each		<u>20,000,000</u>	<u>200,000</u>	<u>20,000,000</u>	<u>200,000</u>
Issued and fully paid:					
At 1 January, ordinary shares of HK\$0.01 each		1,358,720	13,587	551,900	5,519
Shares issued on 16 February 2007	(a)	—	—	18,000	180
Shares issued on 16 March 2007	(b)	—	—	87,000	870
Shares issued on 25 June 2007	(c)	—	—	135,000	1,350
Shares issued on 2 August 2007	(d)	—	—	135,000	1,350
Share issued on 5 November 2007	(e)	—	—	270,000	2,700
Exercise of convertible bonds and issue of shares	(f)	210,000	2,100	136,000	1,360
Exercise of share options and issue of shares	(g)	<u>—</u>	<u>—</u>	<u>25,820</u>	<u>258</u>
At the end of period/year of ordinary shares of HK\$0.01 each		<u>1,568,720</u>	<u>15,687</u>	<u>1,358,720</u>	<u>13,587</u>

Notes:

- (a) On 16 February 2007, an aggregate of 18,000,000 new ordinary shares were issued to Ms. Sheng De Cruz Li to complete the consideration balance of the sale and purchase agreement to acquire 70% equity interest in Win Alliance Development Limited dated 8 December 2006. The directors of the Company considered HK\$0.40 per share is the fair value with reference to the published price of the share on that day. These issued shares rank pari passu with other shares in issue in all respects.
- (b) On 5 March 2007, the Company entered into a placement agreement with Enlighten Securities Limited ("Enlighten Securities") as placing agent, pursuant to which an aggregate of 87,000,000 new ordinary shares were placed by Enlighten Securities on behalf of the Company, on a fully underwritten basis at the price of HK\$0.308 per placing share with six independent investors. Immediately after the completion of this placing, the Company issued 87,000,000 new ordinary shares at HK\$0.308 per share to six independent investors on 16 March 2007. These issued new ordinary shares rank pari passu with other shares in issue in all respects.
- (c) On 11 June 2007, the Company entered into another placement agreement with Enlighten Securities as placing agent, pursuant to which an aggregate of 135,000,000 new ordinary shares were placed by Enlighten Securities on behalf of the Company, on a fully underwritten basis at the price of HK\$0.50 per placing share with six independent investors. Immediately after the completion of this placing, the Company issued 135,000,000 new ordinary shares at HK\$0.50 per share to six independent investors on 25 June 2007. These issued new ordinary shares rank pari passu with other shares in issue in all respects.

- (d) On 20 July 2007, the Company entered into a placing agreement with Guotai Junan Securities (Hong Kong) Limited (“Guotai Junan”) as placing agent, pursuant to which an aggregate of 135,000,000 new ordinary shares were placed by Guotai Junan on behalf of the Company, on a fully underwritten basis at a price of HK\$0.69 per placing share with at least six independent investors. Immediately after the completion of this placing, the Company issued 135,000,000 new ordinary shares at HK\$0.69 per share on 2 August 2007. These issued new ordinary shares rank pari passu with other shares in issue in all respects.
- (e) On 5 November 2007, the Company issued 270,000,000 new ordinary shares to Ms. Leung Lai Ching Margaret to complete the balance of the conditional share acquisition agreement dated 8 July 2007 to acquire 51% equity interest in Kanson. The directors of the Company considered HK\$0.65 per share is the fair value with reference to the published price of the share on that day. These issued new ordinary shares rank pari passu with other shares in issue in all respects.
- (f) On 5 November 2007, the Company issued CB 1 of HK\$375,000,000 at the conversion price of HK\$0.60 per share. During the year ended 31 December 2007, 136,000,000 new ordinary shares in aggregate were issued, at the conversion price of HK\$0.60 per share, to the bond holders upon the conversion of the CB 1. As a result, there was an increase in the share capital and share premium of HK\$1,360,000 and HK\$80,240,000 respectively. These issued new ordinary shares rank pari passu with other shares in issue in all respects.

During the period ended 30 June 2008, 210,000,000 new ordinary shares in aggregate were issued, at the conversion price of HK\$0.60 per share, to the bond holders upon the conversion of the CB 1. As a result, there was an increase in the share capital and share premium of HK\$2,100,000 and HK\$126,478,000 respectively. These issued new ordinary shares rank pari passu with other shares in issue in all respects.

- (g) During the year ended 31 December 2007, subscription rights attached to the 25,820,000 share options of the Company were exercised at subscription prices of HK\$0.365, HK\$0.35 and HK\$0.54 per share. As a result, the Company allotted, issued and fully paid 25,820,000 new ordinary shares of HK\$0.01 each. These issued new ordinary shares rank pari passu with other shares in issue in all respects. A share premium of HK\$10,528,000 was arose from the issue and allotment of shares. In addition an amount of approximately HK\$5,910,000 was transferred from share option reserve to share premium.

20. OPERATING LEASE COMMITMENTS

At 30 June 2008, the Group had total future minimum lease payments under non-cancellable operating lease falling due as follows:

	Unaudited 30 June 2008 HK\$'000	Audited 31 December 2007 HK\$'000
Within one year	5,419	6,199
In the second to fifth years, inclusive	3,575	5,759
	<u>8,994</u>	<u>11,958</u>

The Group leases certain leasehold land and buildings under operating leases. The leases run for an initial period of two to three years, with an option to renew the lease and renegotiate the terms at expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

The Company did not have any significant lease commitments at 30 June 2008.

21. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the unaudited condensed consolidated interim financial statements, the Group had the following material transactions with related parties during the period:

Compensation of key management personnel

	Unaudited	
	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Total remuneration of directors and other members of key management during the period	<u>3,919</u>	<u>4,459</u>

22. COMMITMENTS

As at 30 June 2008, the Group had the following outstanding capital commitments:

The Group entered into agreements with various parties in relation to exploration and evaluation expenditures to be capitalised. As at 30 June 2008, the total contracted amount was HK\$6,545,000 (31 December 2007: HK\$5,110,000).

23. POST BALANCE SHEET EVENTS

Save as disclosed elsewhere in the unaudited condensed consolidated interim financial statements, the Group had the following post balance sheet event:

On 8 April 2008, the Group served a call option notice to Ms. Leung Lai Ching, Margaret to acquire 49% of the entire issued share capital of Kanson Development Limited (“**Kanson**”) from Ms. Leung Lai Ching, Margaret at the consideration totalling HK\$960.78 million by the issue of the Convertible bonds by the Company.

On 3 July 2008, the transaction was completed and Kanson has become an indirectly wholly-owned subsidiary of the Company and the Company issued zero coupon convertible bonds Tranche 3 (“**CB 3**”) in the principal amount of HK\$580,000,000 as part of the consideration for acquisition. CB 3 bear no interest with maturity date on 2 July 2013 and are convertible into shares of the Company at conversion price of HK\$0.25 per share (Please also referred the Company’s announcement dated 18 April 2008, 24 June 2008 and circular dated 6 June 2008 for further details).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

For the six months period ended 30 June 2008, the Group had not recorded any revenue from its continuing operations (2007: HK\$3 million) and net loss from its continuing operations were approximately HK\$56 million (2007: HK\$12 million). The operating loss of the Group from its continuing operations was substantially increased by approximately HK\$36.6 million as compared to the corresponding period of last year which include the loss of HK\$17.2 million on deemed disposal of Aurora Logistic Finance Group Inc and Hebei Da Sheng Warranty Company Limited and impairment loss of HK\$10.8 million in trade receivable in trading of goods business.

CARPET MANUFACTURING AND DISTRIBUTION

For the six months period ended 30 June 2008, the revenue in manufacturing of carpets segment was HK\$4 million, compared with approximately HK\$4.9 million for the same period last year, a decrease of about 18% and the loss of the segment is HK\$22.1 million as compared with HK\$4.7 million for the same period last year which include the loss of HK\$18 million of the remeasurement to fair value of assets held for sale.

During the Period, there was a rise in raw materials and manufacturing costs of consumer products and an intense market competition on global consumer products market. As a result, the Group still recorded a net loss of its business due to the intensive competition of the carpet industry. Furthermore, the Directors noted that the carpet manufacturing and trading business had been suffering loss for the past two years.

On 16 January 2008, the Group entered into a non-binding Memorandum of Understanding such that the entire issued share capital of a wholly-owned subsidiary, namely Orient Carpet Manufacturing (HK) Limited (“OCM”) (which has a direct wholly-owned subsidiary, Hui Zhou Orient Carpet Manufacturing Company Limited (“HZOCM”)), is to be sold to an independent third party for a consideration at HK\$19,300,000. Please refer to the note 10 of Notes to the financial statements in this report and the Company’s announcement dated 16 January 2008. As at the date of this announcement, the final terms and conditions of a sale and purchase agreement is currently being negotiated between the Company and the independent third party. Further announcement(s) will be made in respect thereof as and when required by the Listing Rules.

On 10 March 2008, the Group entered into a share sale agreement with an independent third party to dispose of its entire 51% interest in International Carpet Company Limited (“ICC”) for a total consideration of HK\$200,000. The disposal was completed on 30 May 2008 and it constitutes the discontinued operation of the Group for the six months ended 30 June 2008. Details of this transaction were set out in the Company’s circular dated 21 April 2008.

In view of the above, the Directors decided that the disposals of OCM, HZOCM and ICC would provide the Group an opportunity to realise its investments in the business of mining.

LOGISTICS AND FINANCIAL BUSINESS

In May 2008, the Group disposed 80.4% interest of Hebei Da Sheng Warranty Company Limited (“**Da Sheng**”) to Capital Gain Assets Management Limited (“**Capital Gain**”) in consideration of assumption by Capital Gain of the obligation of the Group to contribute approximately US\$4,070,000 (equivalent to approximately HK\$31,746,000) to the registered capital of Da Sheng and 804 ordinary shares of Aurora Logistic Finance Group Inc. of US\$1.00 each were allotted and issued to Capital Gain on 30 May 2008. Upon the completion, Aurora Logistic Finance Group Inc. and its subsidiaries including Da Sheng are owned as to 19.6% by the Group and 80.4% by Capital Gain. The Directors considered that the disposal of partial interest in Da Sheng would allow relocation of resources to enhance the efficiency in pursuing potential projects in the mining sector. The Group continues to maintain an interest in Da Sheng as the Directors hold an optimistic view in the logistics and financial business and intend to capture the benefit from the future stimulation of the industry. Details of this transaction were set out in the Company’s circular dated 21 April 2008.

XIAO HONG SHAN (LITTLE RED MOUNTAIN) MINERAL PROPERTY

In July 2008, the Group acquired an additional 49% equity interests of Kanson Development Limited (“**Kanson**”) from Ms. Leung Lai Ching, Margaret through Smooth Way International Limited, a wholly-owned subsidiary of the Company. After the completion, Kanson is currently a wholly-owned subsidiary of the Company which indirectly holds an exploration license of a mineral property in 2km by 1km rectangular area of Little Red Mountain located in Inner Mongolia (“**Xiao Hong Shan Project**”).

Current Status of Xiao Hong Shan Project

All key and supplementary metallurgical tests have been completed by the Changsha Research Institute of Mining and Metallurgy and the Changsha China South University. Due to the scheduling for the supplementary testing for enhancing the design for the production line as required by the design institute, the schedule for applying the mining license has been revised. The documents required for the registration of the mineral resources in the 0.7 sq. km area are ready for submission to the Ministry of Land and Resource in the third quarter of this year. At the same time, the project feasibility study required for the application of the mining license is underway.

Meetings were held with the government of Ejinaqi, Inner Mongolia, at which the government confirmed their strong support for the project and the provision of power to the Xiao Hong Shan mine site. The Yumen government also pledged their strong support for the project with the provision of power, water and land to the processing plants. An agreement has been signed with the Shule River Valley Administration Office of the Jiuquan region (includes Yumen) for the supply of water to the entire project. In preparation for the application of the mining license for the Xiao Hong Shan mineral property, a wholly-foreign-owned enterprise in Ejinaqi, Inner Mongolia, being an indirect wholly-owned subsidiary of Kanson, has been established.

PROSPECT

The Board were optimistic about its mining business in the PRC given the increasing prices and global demands for iron and titanium products. We will dedicate more resources to the exploration and development of the Xiao Hong Shan Project and continue to prepare the required documents for the application of the mining license. Upon registration of the mineral resources with the Ministry of Land and Resources, and completion of the project feasibility study, application will be made to delineate the mining area, to be followed by application of the mining license.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2008, the net assets value of the Group is approximately HK\$616.6 million (31 December 2007: approximately HK\$624.6 million) and the total cash and bank balance is approximately HK\$7.6 million (31 December 2007: approximately HK\$50.7 million). As at 30 June 2008, the Group had total current assets of HK\$79 million (31 December 2007: HK\$168 million), and total current liabilities of HK\$50 million (31 December 2007: HK\$68 million).

CURRENT AND GEARING RATIO

As at 30 June 2008, the Group had total assets of approximately HK\$751 million (31 December 2007: HK\$870.1 million), total liabilities of HK\$134 million (31 December 2007: HK\$246 million), indicating a gearing ratio of 0.18 (31 December 2007: 0.28) on the basis of total liabilities over total assets. The current ratio of the Group for the Period was 1.58 (31 December 2007: 2.47).

NUMBER AND REMUNERATION OF EMPLOYEES

The Group total number of employees was approximately 64 employees (2007: 191) in Hong Kong and PRC for the period ended 30 June 2008. The Group recognized the importance of maintaining good working relationships with its employees and accordingly, strives to maintain remunerations at competitive levels and in line with industry practice.

The Company adopted a share option scheme (the “Share Option Scheme”) pursuant to an ordinary resolution passed by the shareholders of the Company on 6 June 2002. The purpose of the Share Option Scheme is to provide incentives or rewards to participants for their contributions to the Group and to enable the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group.

INTERIM DIVIDEND

The Board do not recommend the payment of an interim dividend for the six months ended 30 June 2008. (30 June 2007: Nil)

FOREIGN CURRENCY EXPOSURE

The Group did not have any significant exposure to and did not hedge against risks associated with foreign currency fluctuation.

CONTINGENT LIABILITIES

As at 30 June 2008, the Group did not have any significant contingent liabilities.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the Period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s shares during the Period.

REMUNERATION COMMITTEE

The Remuneration Committee, established in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, comprises the three independent non-executive directors of the Company and the Chairman of the Company, is responsible for reviewing and evaluating the remuneration packages of the executive directors and senior management of the Company and making recommendations to the board of directors from time to time.

NOMINATION COMMITTEE

The Nomination Committee, established in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, comprises the three independent non-executive directors of the Company and the Chairman of the Company, is responsible for making recommendations to the Board on the appointment of Directors and management of the Board succession.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with management the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30 June 2008. The Audit Committee comprises the three independent non-executive directors of the Company.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining and ensuring high standards of corporate governance practices. Throughout the six months ended 30 June 2008, the Company has complied with all the applicable code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the “**Model Code**”) set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all directors have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2008.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (<http://www.irasia.com/listco/hk/xianyuen>) and Hong Kong Exchanges and Clearing Limited (<http://www.hkex.com.hk>). The interim report of the Company for 2008 containing all the information required by the Listing Rules will be dispatched to shareholders and made available on the above websites in due course.

APPRECIATION

I take this opportunity to express our gratitude to the Shareholders of the Company for their continued support and our Directors and our staff for their contribution to the Company.

DIRECTORS

As at the date of this announcement, the Executive Directors are Mr. Tam Owen (Chairman), Dr. Yuen Clement Ming Kai (Vice-Chairman), Mr. Law Fei Shing (Chief Executive Officer), Mr. So Chi Keung, Mr. Fok Po Tin, Mr. Leung Kai Hung, Mr. Yeung Delon and Mr. Sun Tak Yan Desmond; the Non-Executive Director is Mr. Lam Shing Tsun Edmond and the Independent Non-Executive Directors are Mr. Lum Pak Sum, Mr. Wan Hon Keung and Mr. Sun Tak Keung.

By Order of the Board

Law Fei Shing

Chief Executive Officer and Executive Director

Hong Kong, 30 September 2008