



Interim Report 2010

China Railway Logistics Limited
中國鐵路貨運有限公司*

(incorporated in Bermuda with limited liability)

Stock Code: 8089

* For identification purpose only

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This report, for which the directors (the “Directors”) of China Railway Logistics Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

The board of directors (the “Board”) of China Railway Logistics Limited (the “Company”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months and six months ended 30 June 2010, together with the comparative figures for the corresponding periods in year 2009, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Three months ended 30 June		Six months ended 30 June	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000 (Restated)	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000 (Restated)
Continuing operations					
Turnover	3	8,206	1,447	14,744	3,716
Cost of sales		(1,226)	(541)	(2,295)	(1,491)
Gross profit		6,980	906	12,449	2,225
Other income	3	251	864	445	2,427
Distribution and selling expenses		(6)	(5)	(14)	(10)
Administrative expenses		(7,579)	(8,135)	(14,984)	(15,533)
(Loss) gain on fair value changes of investments held-for-trading		(20,492)	473	(44,219)	502
Loss on fair value changes of convertible bonds designated at financial assets at fair value through profit or loss		(29,892)	–	(30,584)	–
Gain on fair value changes of convertible preference shares designated at financial assets at fair value through profit or loss	6	38,283	–	126,884	–
Gain on disposals of convertible bonds		–	–	563	–
Gain on disposals of convertible preference shares	6	–	–	64,345	–
Gain on deemed partial disposal of subsidiaries		–	–	7,204	–
Loss on disposal of a subsidiary		–	–	–	(29)
Share of result of an associate		(758)	(5)	(1,665)	(5)
Share of result of a jointly controlled entity		(446)	–	(185)	–
Finance costs		–	–	–	(28)
Profit (loss) before tax	7	(13,659)	(5,902)	120,239	(10,451)
Income tax credit (expense)	8	12,775	–	(1,560)	–
Profit (loss) for the period from continuing operations		(884)	(5,902)	118,679	(10,451)
Discontinued operations					
Loss for the period from discontinued operations	5	–	(2,603)	(675)	(5,955)
Profit (loss) for the period		(884)	(8,505)	118,004	(16,406)

	Three months ended 30 June		Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000 (Restated)	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000 (Restated)
Other comprehensive (expenses) income				
Change in fair value of available-for-sale financial assets	(1,354)	–	(283)	–
Recognition of deemed partial disposal of subsidiaries	–	–	2,657	–
Exchange differences on translating foreign operations	118	10	637	21
Other comprehensive (expenses) income for the period	(1,236)	10	3,011	21
Total comprehensive (expenses) income for the period	(2,120)	(8,495)	121,015	(16,385)
Profit (loss) for the period attributable to:				
– Owners of the Company	(802)	(8,505)	118,038	(16,406)
– Minority interests	(82)	–	(34)	–
	(884)	(8,505)	118,004	(16,406)
Total comprehensive (expenses) income attributable to:				
– Owners of the Company	(2,038)	(8,495)	121,049	(16,385)
– Minority interests	(82)	–	(34)	–
	(2,120)	(8,495)	121,015	(16,385)
Earnings (loss) per share from continuing and discontinued operations	10			
– Basic and diluted	HK(0.14) cent	HK(1.52) cents	HK20.94 cents	HK(2.99) cents
Earnings (loss) per share from continuing operations	10			
– Basic and diluted	HK(0.14) cent	HK(1.06) cents	HK21.06 cents	HK(1.91) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June	31 December
		2010	2009
		(Unaudited)	(Audited)
	Notes	HK\$'000	HK\$'000
Non-current assets			
Plant and equipment		14,153	15,292
Investment properties		160,542	142,246
Interest in an associate		448	–
Interest in a joint controlled entity		92,505	92,691
Available-for-sale financial assets		16,154	16,437
Other investment		2,000	–
		285,802	266,666
Current assets			
Loan receivables	13	285,948	124,081
Convertible bonds designated at financial assets at fair value through profit or loss		47,535	46,176
Convertible preference shares designated at financial assets at fair value through profit or loss	6	129,173	–
Inventories		247	626
Trade receivables	11	829	252
Prepayments, deposits and other receivables		53,205	101,150
Investments held for trading		68,913	94,540
Amount due from an associate		12,049	–
Bank balances and cash		193,910	299,866
		791,809	666,691
Assets classified as held for sale		–	28,444
		791,809	695,135

		30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
	Notes		
Current liabilities			
Trade payables	12	297	222
Accruals and other payables		3,925	4,404
Receipts in advance		514	359
Taxation		3,979	2,419
		8,715	7,404
Liabilities directly associated with assets classified as held for sale		-	3,859
		8,715	11,263
Net current assets		783,094	683,872
Total assets less current liabilities		1,068,896	950,538
Non-current liability			
Deferred taxation		5,665	5,665
		1,063,231	944,873
Capital and reserves			
Share capital	15	564	564
Reserves		1,048,023	926,974
		1,048,587	927,538
Minority interests		14,644	17,335
Total equity		1,063,231	944,873

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Share capital	Share premium	Contributed surplus	Share options reserve	Investment revaluation reserve	Capital reserve	Warrant reserve	Exchange translation reserve	Accumulated losses	Equity attributable to owners of the Company	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009 (audited)	537	2,837,253	7,914	3,590	-	-	-	(53)	(1,944,521)	904,720	-	904,720
Other comprehensive income (expenses) for the period	-	-	-	-	-	-	-	21	-	21	-	21
Loss for the period	-	-	-	-	-	-	-	-	(16,406)	(16,406)	-	(16,406)
Total comprehensive income (expenses) for the period	-	-	-	-	-	-	-	21	(16,406)	(16,385)	-	(16,385)
Issue of shares on acquisition of a subsidiary	27	17,728	-	-	-	-	-	-	-	17,755	-	17,755
At 30 June 2009 (unaudited)	564	2,854,981	7,914	3,590	-	-	-	(32)	(1,960,927)	906,090	-	906,090
At 1 January 2010 (audited)	564	2,854,452	7,914	3,590	951	6,898	3,300	(98)	(1,950,033)	927,538	17,335	944,873
Other comprehensive income (expenses) for the period	-	-	-	-	(283)	-	-	637	2,657	3,011	-	3,011
Profit for the period	-	-	-	-	-	-	-	-	118,038	118,038	(34)	118,004
Total comprehensive income (expenses) for the period	-	-	-	-	(283)	-	-	637	120,695	121,049	(34)	121,015
Reversal deemed partial disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	(2,657)	(2,657)
At 30 June 2010 (unaudited)	564	2,854,452	7,914	3,590	668	6,898	3,300	539	(1,829,338)	1,048,587	14,644	1,063,231

Note: The capital reserve represents the difference between the capital contribution by minority interests and the relevant share of the carrying value of a subsidiary's net assets by the minority interests.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Net cash used in operating activities	(168,546)	(66,083)
Net cash generated from/(used in) investing activities	61,981	(48,332)
Net cash generated from financing activities	178	17,775
Net decrease in cash and cash equivalents	(106,387)	(96,640)
Cash and cash equivalents at the beginning of period	299,866	802,629
Effect of foreign exchange rate changes	431	–
Cash and cash equivalents at the end of period	193,910	705,989
Analysis of balances of cash and cash equivalents		
Bank balances and cash	193,910	705,989

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. COMPANY INFORMATION

The Company was incorporated in Bermuda on 25 February 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Its shares have been listed on GEM of the Stock Exchange since 18 May 2000. The address of its registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and its principal place of business is located at Units A-B, 16th Floor, China Overseas Building, No.139 Hennessy Road, Wanchai, Hong Kong.

The Company is an investment holding company. The unaudited condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is also the functional currency of the Company.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in preparing the condensed consolidated financial statements are consistent with those used in the Group's annual financial statements for the year ended 31 December 2009 (the "2009 Financial Statements"), except for the amendments and interpretations of HKFRSs ("New HKFRSs") issued by HKICPA which have become effective in this period as detailed in notes of the 2009 Financial Statements. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the condensed consolidated financial statements for the period.

3. TURNOVER AND OTHER INCOME

Turnover represents the aggregate of the amounts received and receivable for goods sold, net of returns and services rendered by the Group and rental and interest income received and receivable during the period. The analysis of the Group's turnover and other income for the periods is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Turnover:				
Computer telephony	2,258	1,447	4,758	3,716
Loan financing	5,948	–	9,986	–
	8,206	1,447	14,744	3,716
Other income:				
Bank interest income	92	816	159	2,328
Sundry income	159	48	286	99
	251	864	445	2,427

4. SEGMENT INFORMATION

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

The following summary describes the operations in each of the Group's reportable segments under HKFRS 8:

Computer telephony	–	leasing of telecommunications equipment and computer telecommunications and computer telephony system and provision of consulting and maintenance services
Properties investments	–	investment in properties for rental income purpose
Securities trading	–	trading of securities
Loan financing	–	provision of financing services

4. SEGMENT INFORMATION (Continued)

Business segments

The following is an analysis of the Group's turnover and results by reportable segment from continuing operations:

	Turnover		Segment results	
	six months ended 30 June			
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Operating divisions				
Computer telephony	4,758	3,716	271	2,225
Properties investments	-	-	(187)	-
Securities trading	-	-	(70,980)	-
Loan financing	9,986	-	9,158	-
	14,744	3,716	(61,738)	2,225
Unallocated corporate expenses			(15,051)	(15,070)
Unallocated other income			445	2,427
Gain on deemed partial disposal of subsidiaries			7,204	-
Gain on fair value changes of convertible preference designated at financial assets at fair value through profit or loss			126,884	-
Gain on disposals of convertible preference shares			64,345	-
Share of result of an associate			(1,665)	(5)
Share of result of a jointly controlled entity			(185)	-
Finance costs			-	(28)
Profit (loss) before tax			120,239	(10,451)
Income tax expense			(1,560)	-
Profit (loss) for the period			118,679	(10,451)

5. DISCONTINUED OPERATIONS

The operation of telecommunications and one-stop value chain services segments were presented as discontinued operation as follows:

	Three months ended 30 June		Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Turnover:				
Telecommunications	-	1,251	-	2,563
One-stop value chain services	-	20,492	-	30,754
	-	21,743	-	33,317
Loss of the discontinued operations:				
Telecommunications	-	122	-	(80)
One-stop value chain services	-	(2,725)	(675)	(5,875)
	-	(2,603)	(675)	(5,955)

6. INVESTMENT IN AND PARTIAL DISPOSAL OF CONVERTIBLE PREFERENCE SHARES

In August 2008, the Group acquired 173,913,043 convertible preference shares of China Eco-Farming Limited ("CEF"). For the details, please refer to the circular of the Company dated on 30 September 2008. Upon completion of the placing on 29 January 2010 as reported under the section headed "Material Acquisitions and Disposals", the gain on disposal of 150,000,000 convertible preference shares was calculated by the proceed from the placing and reversal of impairment loss recorded in the year 2008. As at 30 June 2010, the Group holds 23,913,043 convertible preference shares at an accrued dividend rate of 3% of par receivable annually. Each convertible preference share will, at any time, be convertible, at the option of the holder, into 10 ordinary shares of CEF. The contractual exercise period for conversion option is from 6 November 2007 to 5 November 2012.

The fair value of the convertible preference shares at 30 June 2010 have been arrived on the basis of a valuation carried out on that date by an independent valuer.

7. PROFIT (LOSS) BEFORE TAX

Profit (loss) before tax has been arrived at after charging (crediting):

	Three months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Staff costs including directors' emoluments:				
Salaries and allowances	3,353	3,290	6,623	6,803
Contributions to retirement benefits scheme	41	86	136	173
	3,394	3,376	6,759	6,976
Depreciation of plant and equipment	578	510	1,157	1,049
Minimum lease payments under operating leases	902	432	1,957	1,173
Cost of inventories recognized as an expense	1,226	541	2,295	1,491

8. INCOME TAX CREDIT (EXPENSE)

The Company is not subject to tax in Bermuda on its assessable profits or capital gains until March 2016.

The Group's operations are carried out in both Hong Kong and the People's Republic of China ("PRC"). The official applicable PRC tax rate for the periods ended 30 June 2010 and 2009 respectively is 25%. However, certain subsidiaries in the Group are "Encouraged Hi-Tech Enterprise" and are thus entitled to a reduced corporate income tax rate of 15% from 1 January 2008. As the PRC subsidiaries of the Group were loss-making for the six months ended 30 June 2010 and 2009, no provision for PRC income tax was made.

Hong Kong Profits Tax is calculated at 16.5% of the estimated profit for the six months ended 30 June 2010. No Hong Kong Profits Tax was provided as the Group had no assessable profits for the six months ended 30 June 2009.

9. DIVIDEND

No dividend was paid or proposed during the six months ended 30 June 2010 and 30 June 2009, nor has any dividend been proposed since 30 June 2010.

10. EARNINGS (LOSS) PER SHARE

The calculation of the basic loss per share for the three months ended 30 June 2010 is based on loss from continuing and discontinued operations, and from continuing operations attributable to owners of the Company amounting to loss of approximately HK\$802,000 and approximately HK\$802,000 (three months ended 30 June 2009: loss of approximately HK\$8,505,000 and approximately HK\$5,902,000) respectively, and the weighted average of 563,814,000 ordinary shares of the Company (the "Shares") in issue during the period (three months ended 30 June 2009: 558,281,000 Shares).

The calculation of the basic earnings (loss) per share for the six months ended 30 June 2010 is based on profit (loss) for continuing and discontinued operations and for continuing operations attributable to owners of the Company amounting to profit of approximately HK\$118,038,000 and approximately HK\$118,713,000 (six months ended 30 June 2009: loss of approximately HK\$16,406,000 and approximately HK\$10,451,000) respectively, and the weighted average of 563,814,000 Shares in issue during the period (six months ended 30 June 2009: 547,855,436 Shares).

The computation of diluted (loss) earnings per share for the three months and six months ended 30 June 2010 does not assume the exercise of the Company's share options and non-listed warrants because the exercise price of the Company's share options and non-listed warrants were higher than the average market price of the shares of the Company during the period under review.

Diluted loss per share for the three months and six months ended 30 June 2009 was the same as basic loss per share as the conversion of the Company's outstanding share options would result in a decrease in loss per share.

11. TRADE RECEIVABLES

The Group normally grants to its customer credit period ranging from 30 days to 180 days. The aging analysis of trade receivables presented based on the invoice date is as follows:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
0 – 90 days	1,114	170
91 – 180 days	7	32
181 – 365 days	636	82
Over 365 days	–	896
	1,757	1,180
Less: impairment loss recognized	(928)	(928)
	829	252

12. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date and the average credit period on purchases of goods is 60 days.

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
0 – 60 days	250	175
61 – 120 days	–	47
121 – 365 days	47	–
Over 365 days	–	–
	297	222

13. LOAN RECEIVABLES

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Secured loan receivables	238,930	98,873
Unsecured loan receivables	47,018	29,031
Loan receivables from a former subsidiary	–	151,980
	285,948	279,884
Less: Impairment loss recognized	–	(155,803)
	285,948	124,081

The secured loan receivables are secured by listed equity shares, convertible bonds and unlisted shares, and bear interest at a rate ranging from 7% to 14% (2009: 8% to 10%) per annum.

The unsecured loan receivables bear interest at a rate ranging from 8% to 10% (2009: 4% to 8%) per annum. The unsecured loan receivables of HK\$46,633,000 are guaranteed by the outside parties.

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Within 3 months	99,449	48,378
More than 3 months but less than 6 months	51,514	25,274
More than 6 months but less than 12 months	134,985	50,429
	285,948	124,081

14. OPERATING LEASE COMMITMENTS

The Group had commitments for future minimum lease payments in respect of premises under various non-cancellable operating leases which fall due as follows:

	30 June 2010 (Unaudited) HK\$'000	30 June 2009 (Unaudited) HK\$'000
Within one year	2,239	2,571
In the second to fifth year inclusive	1,608	2,866
	3,847	5,437

15. SHARE CAPITAL

	30 June 2010 Number of shares '000	Nominal value HK\$'000
Authorised:		
Ordinary shares of HK\$0.001 each at 1 January 2010 and 30 June 2010	100,000,000	100,000
Issued and fully paid ordinary shares of HK\$0.001 each at 1 January 2010 and 30 June 2010	563,814	564
	31 December 2009 Number of shares '000	Nominal value HK\$'000
Authorised:		
Ordinary shares of HK\$0.001 each at 1 January 2009 and 31 December 2009	100,000,000	100,000
Issued and fully paid ordinary shares of HK\$0.001 each at 1 January 2009	537,314	537
Issue of shares on acquisition of a subsidiary	26,500	27
Ordinary shares of HK\$0.001 each at 31 December 2009	563,814	564

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

For the six months ended 30 June 2010, the Group recorded a turnover from continuing operations of approximately HK\$14,744,000 (six months ended 30 June 2009: approximately HK\$3,716,000), representing an increase of approximately 296.8% as compared to the last corresponding period. Turnover from computer telephony and loan financing were approximately HK\$4,758,000 and HK\$9,986,000 respectively.

Administrative expenses for the six months ended 30 June 2010 was approximately HK\$14,984,000 (six months ended 30 June 2009: approximately HK\$15,533,000), representing a decrease of 3.53% as compared to that of the last corresponding period.

The profit attributable to the owners of the Company aggregated at approximately HK\$118,038,000 (six months ended 30 June 2009: loss approximately HK\$16,406,000), which was mainly contributed from the gain on disposals of convertible preference shares ("CP Shares") of China Eco-Farming Limited ("CEF"); and on fair value changes of CP Shares held by the Group as at 30 June 2010. The basic earnings per share for the six months ended 30 June 2010 was HK\$20.94 cents (six months ended 30 June 2009: basic loss per share HK2.99 cents).

Business Review and Outlook

The IT and telecommunications business in computer telephony of the Group remained steady and recorded a stable income for the first half of year 2010.

The Group commenced its loan financing business right after the granting of the money lenders license in late 2009. During the period under review, the loan financing business has been gradually increasing and generating solid income for the Group.

The shopping mall retailing electronic products in Changsha, the People's Republic of China (the "PRC") (the "Changsha Shopping Mall") was opened and commenced operation in January 2010. Most of the shops in the Changsha Shopping Mall have been let. The Changsha Shopping Mall, situated at a prime location near Changsha Railway Station with a gross floor area of approximately 25,700 square metres, is a modern shopping mall for electronic products.

The Board remains prudently optimistic about the property market in the PRC and in Hong Kong in the long run and hence the Group will continue to identify and secure investment opportunities in the respective property markets to enhance the Group's profitability.

In addition to expanding its loan financing and computer telephony businesses, the Board will continue to seek other investment opportunities and to explore the feasibility of expanding into other business sectors to diversify the Group's business portfolio aiming to enhance the Group's profitability and the shareholders' value.

Fund Raising Activities

On 13 May 2010, the Company entered into a placing agreement with a placing agent in relation to the placement of 112,000,000 new ordinary shares at a price of HK\$0.70 per share (the "Placing Shares") to independent institutional or private investors not connected with the Company and its connected persons (as defined in the GEM Listing Rules) on a best-effort basis (collectively, the "Placing"). The Placing Shares will be issued under the general mandate and therefore the Placing is not subject to Shareholders' approval. Details of the Placing were set out in the announcement of the Company dated 13 May 2010. The Placing has not yet been completed as at the date of this report.

Liquidity and Financial Resources

The Group principally finances its operations through a combination of shareholders equity and internally generated cash flows.

As at 30 June 2010, the Group had cash and cash equivalents of approximately HK\$193,910,000 (31 December 2009: approximately HK\$299,866,000) and had no bank borrowings (31 December 2009: Nil). The gearing ratio, measured on the basis of total non-current liabilities to total assets less current liabilities, was zero times (2009: zero times).

Capital Structure

As at 30 June 2010, the Company's issued share capital was HK\$563,814 and the number of its issued ordinary shares was 563,814,000 of HK\$0.001 each ("Shares").

Charges on Group Assets and Contingent Liabilities

The Group did not have any charges on its assets and there were no contingent liabilities as at 30 June 2010.

Capital Commitments

The Group did not have any material capital commitments as at 30 June 2010 (31 December 2009: Nil).

Exposure to Fluctuation in Exchange Rates and Related Hedges

The reporting currency adopted by the Group is Hong Kong dollars (“HK\$”). The majority of the Group’s sales, receivables and expenditures are dominated in HK\$, United States dollars (“USD”) or Renminbi (“RMB”). HK\$ is closely linked with USD. Although the exchange rate of HK\$ against RMB had been steadily depreciated during the period under review, the Directors do not consider that the Group is exposed to any material foreign currency exchange risk as any specific five years currency other than RMB. Therefore, no hedging devices or other alternative measures have been implemented.

Significant Investments

During the period ended 30 June 2010, the Group acquired two properties in Hong Kong at the respective purchase price of approximately HK\$9,300,000 and HK\$8,200,000 for investment purpose. As at 30 June 2010, the Group held investment properties with aggregate value amounted to approximately HK\$160,542,000 (31 December 2009: approximately HK\$142,246,000). Furthermore, as at 30 June 2010, the Group held convertible bonds and other investment held-for-trading that amounted to approximately HK\$47,535,000 and HK\$68,913,000 (31 December 2009: approximately HK\$46,176,000 and HK\$94,540,000), respectively; and available-for-sale financial assets that amounted to approximately HK\$16,154,000 (31 December 2009: approximately HK\$16,437,000).

Material Acquisitions and Disposals

On 15 December 2008, Top Status International Limited (“Top Status”), a wholly-owned subsidiary of the Company, entered into a placing agreement with a placing agent (as amended by supplemental placing agreements dated 22 December 2008, 15 March 2009, 15 June 2009, 15 September 2009 and 15 December 2009, respectively) for the private placing of 150,000,000 convertible preference shares (the “CP Shares”) of CEF, which at that juncture was a non-wholly owned subsidiary of the Company and a company listed on the GEM Board of the Stock Exchange (Stock Code: 8166), at a price of HK\$0.53 per CP Share to potential subscribers (collectively, the “CP Placing”) on a best effort basis. The CP Placing was completed on 29 January 2010. The net proceeds earned from the CP Placing aggregated at approximately HK\$78,705,000 which was applied as general working capital of the Group. Immediately after full conversion of the CP Shares by the holders thereof on 29 January 2010, the Company’s interest in CEF was diluted to approximately 22.27%, as a result of the said diluted CEF ceased to be a subsidiary of the Company.

On 3 March 2010, Top Status and China Coalfields International Group Limited entered into a conditional sale and purchase agreement to dispose of 537,276,000 shares in CEF, representing approximately 22.27% of the then issued share capital of CEF, at a consideration of approximately HK\$175,000,000. The disposal is subject to the approval of the shareholders of the Company and has not yet been completed at the date of this report.

On 11 June 2010, a placing agreement was entered into among Top Status, CEF and Fortune (HK) Securities Limited, and a subscription agreement was entered into between Top Status and CEF (collectively the "Agreements"). The placing agreement was subsequently amended by supplemental agreements dated 18 June 2010, 5 July 2010 and 15 July 2010, and the subscription agreement was subsequently amended by supplemental agreements dated 5 July 2010 and 15 July 2010 respectively. Pursuant to the Agreements (as amended), a maximum of 135,000,000 CEF shares held by Top Status may be placed at the placing price of HK\$0.46 per share and a maximum of 135,000,000 CEF shares may be subscribed by Top Status at the subscription price of HK\$0.46 per share (collectively, the "Top-up Placing"), respectively. For detail, please refer to the announcement of the Company dated 3 August 2010.

As at the date of this report, 38,500,000 CEF shares have been placed; and the Top-up Placing has not yet been completed.

Employee Information and Remuneration Policy

The Group (excluding its associates) had about 38 full time employees (31 December 2009: 55) in Hong Kong and the PRC as at 30 June 2010.

The emoluments of the Directors are recommended by the remuneration committee for approval by the Board, as authorized by the Shareholders in the annual general meeting of the Company, having regard to the respective Directors' skills, knowledge and involvement in the Company's affairs. None of the Directors are involved in deciding their own remuneration.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2010, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "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 recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, or to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares and underlying shares of the Company

Name of Director	Type of interests	Number of issued ordinary shares held	Total interests	Total approximate percentage of the issued share capital
Chan Shui Sheung Ivy	Beneficial owner	60,000	60,000	0.011%

Save as disclosed above, as at 30 June 2010, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the above section headed "Directors' and Chief Executives' Interests in Shares" at no time during the six months ended 30 June 2010 was the Company or any of its subsidiaries or holding companies a party to any arrangements to enable any of the Directors or Company's members of its management to acquire benefits by means of the acquisition of the Shares in, or debt securities (including debentures) of the Company or any other body corporate, and none of the Directors, their spouse or their children under the age 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the six months ended 30 June 2010.

SHARE OPTION SCHEME

On 13 November 2002, the Company adopted a share option scheme ("2002 Option Scheme") under which the Board may, at its discretion, grant options to the participants fall within the definition prescribed in the 2002 Option Scheme including the employees, non-executive directors of the Company or its subsidiaries, etc. The 2002 Option Scheme will remain in force for a period of 10 years starting from 13 November 2002.

Details of the outstanding options under the 2002 Option Scheme as at 30 June 2010 are as follow:

Name	Date of granted	Vesting period	Exercise price	Exercisable period	Number of share options outstanding as at 1 January 2010 and 30 June 2010
Employees	3 April 2007	None	7.35	3 April 2007 to 2 April 2017	1,000,000
Consultants	3 April 2007	None	7.35	3 April 2007 to 2 April 2017	1,200,000
Total					2,200,000

Note: No option under the 2002 Option Scheme was granted, exercised, cancelled or lapsed during the period under review.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Directors or Company's members of its management had a material interest, whether directly or indirectly, subsisted at 30 June 2010 or at any time during the six months ended 30 June 2010.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2010, persons who had interests or short positions directly or indirectly in the Company's shares, underlying shares and debentures recorded in the register kept by the Company pursuant to section 336 of the SFO or to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules were as follows:

Name of Shareholders	Capacity	Number of shares	Percentage of interests
PME Group Limited	Interest of corporation controlled	80,254,000 (Note 1)	14.23%
Sunbright Asia Limited	Beneficial owner	71,000,000 (Note 1)	12.59%
Well Support Limited	Beneficial owner	52,415,466 (Note 2)	9.30%
Liu Yi Dong	Trustee of Liu Yi Dong Family Trust	52,415,466 (Note 2)	9.30%

Notes:

1. According to the corporate substantial shareholder notices filed by PME Group Limited and by Sunbright Asia Limited, PME Group Limited is interested in 80,254,000 Shares through its controlled corporation as follows:
 - (i) 71,000,000 Shares are directly held by Sunbright Asia Limited which in turn is 100% directly owned by CR Investment Group Limited which in turn is directly 100% owned by PME Group Limited; and
 - (ii) 9,254,000 Shares are directly held by Betterment Enterprises Limited which in turn is directly 99.49% owned by Richcom Group Limited which in turn is directly 100% owned by CR Investment Group Limited which in turn is directly 100% owned by PME Group Limited.
2. According to the corporate substantial shareholder notice filed by Well Support Limited and the individual substantial shareholder notice filed by Liu Yi Dong, these shares are held by Well Support Limited, which is beneficially owned by Liu Yi Dong Family Trust and the beneficiaries of which are Liu Yi Dong and his family members.

Save as disclosed above, the Directors were not aware of any other party who had an interest or a short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or was directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of the Company, or any other substantial shareholders whose interest or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO as at 30 June 2010.

COMPETING INTERESTS

None of the Directors or the controlling shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had any business or interest that competes or may compete with the business of the Group or had any other conflict of interest with the Group during the six months ended 30 June 2010.

CODE ON CORPORATE GOVERNANCE

The Company has complied with the code provisions on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules (the "CG Code") for the six months ended 30 June 2010 except for the following deviation:

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

During the six months ended 30 June 2010, the Company did not have a chairman or a chief executive officer. The Board will keep reviewing the current structure of the Board from time to time and should candidates with suitable knowledge, skill and experience be identified, the Company will make appointments to fill the posts as appropriate.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "Code of Conduct"). Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the Code of Conduct throughout the six months ended 30 June 2010.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

AUDIT COMMITTEE

The Company has established an audit committee of the Company (the "Audit Committee") with written terms of reference in compliance with the GEM Listing Rules. As at the date of this report, the Audit Committee comprises all independent non-executive Directors. The primary duties of the audit committee are to review the Company's annual report and financial statements, interim reports and quarterly reports and to provide advice and comments thereon to the Board.

The Audit Committee has reviewed the Group's unaudited financial results and this report for the six months ended 30 June 2010 and has provided advice and comments thereon.

On behalf of the Board
Chan Shui Sheung Ivy
Executive Director

Hong Kong, 6 August 2010

As at the date hereof, the Company's executive directors are Ms. Yeung Sau Han Agnes and Ms. Chan Shui Sheung Ivy, and the Company's independent non-executive directors are Ms. Yuen Wai Man, Mr. Lam Ka Wai Graham and Mr. Wang Chin Mong.