



RPC 瑞豐石化

Ruifeng Petroleum Chemical Holdings Limited
瑞豐石化控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 8096)



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This report, for which the directors of Ruifeng Petroleum Chemical Holdings Limited 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 (the “GEM Listing Rules”) for the purpose of giving information with regard to Ruifeng Petroleum Chemical Holdings Limited. The Directors, having made all reasonable enquires, 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.

RESULTS

The board of directors of Ruifeng Petroleum Chemical Holdings Limited (the "Company") presents the unaudited condensed consolidated interim financial information of the Company and its subsidiaries (the "Group") for the three months and six months ended 30 June 2012 together with the comparative figures for the corresponding periods in last financial year.

CONDENSED CONSOLIDATED INCOME STATEMENT

| | <i>Notes</i> | Three months ended 30 June | | Six months ended 30 June | |
|--|--------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | | 2012 HK\$'000 (unaudited) | 2011 HK\$'000 (unaudited) | 2012 HK\$'000 (unaudited) | 2011 HK\$'000 (unaudited) |
| Revenue | 3 | 14,279 | 1,474,498 | 21,133 | 2,502,660 |
| Cost of sales | 5 | (14,439) | (1,382,292) | (20,441) | (2,297,301) |
| Gross (loss)/profit | | (160) | 92,206 | 692 | 205,359 |
| Other income | 3 | 940 | 3,942 | 7,128 | 7,788 |
| Distribution costs | 5 | (171) | (1,807) | (390) | (4,235) |
| Administrative expenses | 5 | (32,680) | (20,590) | (64,495) | (46,222) |
| Finance costs | | (33,525) | (40,219) | (48,889) | (89,143) |
| (Loss)/profit before income tax | | (65,596) | 33,532 | (105,954) | 73,547 |
| Income tax expenses | 6 | (614) | (1,897) | (1,300) | (11,151) |
| (Loss)/profit for the period attributable to equity holder of the Company | | (66,210) | 31,635 | (107,254) | 62,396 |
| (Loss)/earnings per share attributable to the equity holder of the Company | 8 | | | | |
| – basic (HK cents per share) | | (1.35) | 0.86 | (2.39) | 1.80 |
| – diluted (HK cents per share) | | N/A | N/A | N/A | N/A |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Three months ended 30 June | | Six months ended 30 June | |
|---|----------------------------|-------------|--------------------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| (Loss)/profit for the period | (66,210) | 31,635 | (107,254) | 62,396 |
| Other comprehensive income: | - | (207) | - | (1,177) |
| Revaluation deficit on available-for-sale financial assets | - | (207) | - | (1,177) |
| Exchange differences on translation of foreign operations | (7,075) | 8,984 | (7,265) | 8,983 |
| Total other comprehensive (loss)/income for the period, net of tax | (7,075) | 8,777 | (7,265) | 7,806 |
| Total comprehensive (loss)/income for the period attributable to equity holder of the Company | (73,285) | 40,412 | (114,519) | 70,202 |

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

| | | 30 June | 31 December |
|--|--------------|--------------------|-------------|
| | | 2012 | 2011 |
| | | HK\$'000 | HK\$'000 |
| | <i>Notes</i> | (Unaudited) | (Audited) |
| Non-current assets | | | |
| Property, plant and equipment | | 1,866,815 | 1,915,890 |
| Intangible assets | | 30,000 | 30,000 |
| Prepaid land lease payments | | 102,210 | 103,108 |
| Goodwill | | 153,696 | 153,696 |
| Available-for-sale financial assets | <i>9</i> | 165 | 162 |
| Total Non-current assets | | 2,152,886 | 2,202,856 |
| Current assets | | | |
| Inventories | <i>10</i> | 862,680 | 871,467 |
| Trade receivables | <i>11</i> | 23,760 | 24,312 |
| Prepayments, deposits and other receivables | | 940,500 | 938,171 |
| Pledged deposit | <i>12</i> | 99,471 | 846,096 |
| Cash and cash equivalents | <i>12</i> | 3,080 | 90,156 |
| Total current assets | | 1,929,491 | 2,770,202 |
| Total assets | | 4,082,377 | 4,973,058 |
| EQUITY | | | |
| Capital and reserves attributable to the Company's equity holders | | | |
| Share capital | <i>15</i> | 51,018 | 39,983 |
| Reserves | | 955,566 | 851,992 |
| Total equity | | 1,006,584 | 891,975 |

| | | 30 June 2012 | 31 December 2011 |
|--|--------------|-------------------------|---------------------|
| | | HK\$'000 | HK\$'000 |
| | <i>Notes</i> | (Unaudited) | (Audited) |
| Current liabilities | | | |
| Trade and bills payables | <i>13</i> | 1,136,267 | 1,743,334 |
| Accruals and other payable | | 263,332 | 409,213 |
| Interest-bearing bank and other borrowings | <i>14</i> | 571,878 | 633,967 |
| Amounts due to directors | <i>16</i> | 24,788 | 25,000 |
| Total current liabilities | | 1,996,265 | 2,811,514 |
| Net current liabilities | | (66,774) | (41,312) |
| Total assets less current liabilities | | 2,086,112 | 2,161,544 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 43,226 | 42,367 |
| Long-term payables | | 1,036,302 | 1,227,202 |
| Total non-current liabilities | | 1,079,528 | 1,269,569 |
| Net assets | | 1,006,584 | 891,975 |
| Total equity and liabilities | | 4,082,377 | 4,973,058 |

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

| | Share Capital HK\$'000 (unaudited) | Share Premium HK\$'000 (unaudited) | Capital Reserve HK\$'000 (unaudited) | Equity component of convertible bonds HK\$'000 (unaudited) | Currency Translation HK\$'000 (unaudited) | Available- for-sale- financial assets HK\$'000 (unaudited) | Accumulated losses HK\$'000 (unaudited) | Total HK\$'000 (unaudited) |
|--|---|---|---|---|--|---|--|----------------------------------|
| Balance at 1 January 2011 | 26,263 | 84,068 | 6,840 | 87,094 | 4,836 | 1,777 | (45,702) | 165,176 |
| Profit for the period | - | - | - | - | - | - | 62,396 | 62,396 |
| Total other comprehensive loss | - | - | - | - | 8,983 | (1,177) | - | 7,806 |
| Total comprehensive (loss)/income | - | - | - | - | 8,983 | (1,177) | 62,396 | 70,202 |
| Issue of shares upon conversion of convertible bonds | 10,800 | 659,471 | - | (247,531) | - | - | - | 422,740 |
| Issue of convertible bonds | - | - | - | 160,437 | - | - | - | 160,437 |
| Issue of non-listed warrants | - | - | 406 | - | - | - | - | 406 |
| Balance at 30 June 2011 | 37,063 | 743,539 | 7,246 | - | 13,819 | 600 | 16,694 | 818,961 |

| | Share Capital HK\$'000 (unaudited) | Share Premium HK\$'000 (unaudited) | Capital Reserve HK\$'000 (unaudited) | Equity component of convertible bonds HK\$'000 (unaudited) | Non-listed warrants reserve HK\$'000 (unaudited) | Share-based payment reserve HK\$'000 (unaudited) | Currency Translation HK\$'000 (unaudited) | Available- for-sale- financial assets HK\$'000 (unaudited) | Accumulated losses HK\$'000 (unaudited) | Total HK\$'000 (unaudited) |
|--|---|---|---|---|--|--|--|---|--|----------------------------------|
| Balance at 1 January 2012 | 39,983 | 837,685 | 6,840 | - | 406 | 2,970 | 25,707 | - | (21,616) | 891,975 |
| Comprehensive (loss)/income | - | - | - | - | - | - | - | - | (107,254) | (107,254) |
| Loss for the period | - | - | - | - | - | - | (7,265) | - | - | (7,265) |
| Total other comprehensive loss | - | - | - | - | - | - | (7,265) | - | - | (7,265) |
| Total comprehensive (loss)/income | - | - | - | - | - | - | 18,442 | - | (128,870) | 777,456 |
| Issue of shares | 11,035 | 218,093 | - | - | - | - | - | - | - | 229,128 |
| Release on forfeiture of share options | - | - | - | - | - | (1,558) | - | - | 1,558 | - |
| Release on forfeiture of the subscription right of the non-listed warrants | - | - | - | - | (406) | - | - | - | 406 | - |
| Balance at 30 June 2012 | 51,018 | 1,055,778 | 6,840 | - | - | 1,412 | 18,442 | - | (126,906) | 1,006,584 |

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

| | Six months ended 30 June | |
|---|---------------------------------|-------------|
| | 2012 | 2011 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 92,309 | 150,358 |
| NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES | (175,060) | 532,608 |
| NET CASH INFLOW/ (OUTFLOW) FROM INVESTING ACTIVITIES | 377 | (659,195) |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | (82,374) | 23,771 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 90,156 | 25,454 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | (4,702) | 5,599 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 3,080 | 54,824 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| CASH AND BANK BALANCES | 3,080 | 54,824 |

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2012

1. General information

Ruifeng Petroleum Chemical Holdings Limited (the “Company”) is an investment holding company. The principal activities of the Company and its subsidiaries (together the “Group”) are fuel oil processing, trading of fuel oil, the development and distribution of Thin Computing solutions and related products.

Ruifeng Petroleum Chemical Holdings Limited is a limited liability company incorporated in the Cayman Islands. The principal place of business of the Company is located at 13F., Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong and the address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

These unaudited condensed consolidated financial information are presented in thousands of units of Hong Kong dollars (HK\$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 14 August 2012.

2. Principal accounting policies and basis of preparation

These unaudited condensed consolidated interim financial information for the six months ended 30 June 2012 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA.

The principal accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements for the six months ended 30 June 2012 are consistent with those used in the annual audited financial statements for the year ended 31 December 2011, except for the new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by HKICPA that are adopted for the first time for the current financial statements. The adoption of these new and revised HKFRSs has had no material impact on the Group’s financial statements. The Group has not early adopted any new HKFRSs that have been issued but are not yet effective.

3. Revenue and other income

Revenue comprises the fair value of the consideration received or receivable for the sale of goods, processed fuel oil and services rendered in the ordinary course of the Group's activities. Revenue is shown net of allowance for return and trade discounts, and applicable goods and services taxes and after eliminating sales within the Group.

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

| | Three months ended 30 June | | Six months ended 30 June | |
|----------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 2012 HK\$'000 (Unaudited) | 2011 HK\$'000 (Unaudited) | 2012 HK\$'000 (Unaudited) | 2011 HK\$'000 (Unaudited) |
| Revenue: | | | | |
| Sale of goods | 1,022 | 1,514 | 2,177 | 3,122 |
| Sale of processed fuel oil | 13,257 | 1,472,984 | 18,956 | 2,499,538 |
| | 14,279 | 1,474,498 | 21,133 | 2,502,660 |
| Other income: | | | | |
| Interest income | 445 | 3,839 | 5,856 | 7,320 |
| Other | 495 | 103 | 1,272 | 468 |
| | 940 | 3,942 | 7,128 | 7,788 |

4. Segment information

(a) Business segments

The segment results for the period ended 30 June 2012 and 2011 are as follows:

| | Software | | Upgrade kits | | Vertical market solutions | | Processed fuel oil | | Total | |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 2012 HK\$'000 (Unaudited) | 2011 HK\$'000 (Unaudited) | 2012 HK\$'000 (Unaudited) | 2011 HK\$'000 (Unaudited) | 2012 HK\$'000 (Unaudited) | 2011 HK\$'000 (Unaudited) | 2012 HK\$'000 (Unaudited) | 2011 HK\$'000 (Unaudited) | 2012 HK\$'000 (Unaudited) | 2011 HK\$'000 (Unaudited) |
| Total segment revenue and revenue from external customers | 2,157 | 3,097 | 20 | 12 | - | 13 | 18,956 | 2,499,538 | 21,133 | 2,502,660 |
| Segment results | 2,157 | 2,559 | 18 | 11 | - | 1 | (1,483) | 202,788 | 692 | 205,359 |
| Other income | | | | | | | | | 7,128 | 7,788 |
| Unallocated operating costs | | | | | | | | | (64,885) | (50,457) |
| Finance costs | | | | | | | | | (48,889) | (89,143) |
| (Loss)/Profit before income tax | | | | | | | | | (105,954) | 73,547 |

(b) Geographical segments*Revenue*

| | Six months ended 30 June | |
|--|---------------------------------|-------------|
| | 2012 | 2011 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Europe | 739 | 1,311 |
| United States | 839 | 1,164 |
| Asia Pacific except Hong Kong, China and Singapore | 547 | 551 |
| Hong Kong and China | 18,978 | 2,499,599 |
| Singapore | 13 | 17 |
| Other countries | 17 | 18 |
| Total | 21,133 | 2,502,660 |

Revenue is allocated based on the country in which the customer is located.

Total assets

| | 30 June | 31 December |
|---------------------|--------------------|-------------|
| | 2012 | 2011 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Audited) |
| Singapore | 12,731 | 13,997 |
| Hong Kong and China | 4,069,646 | 4,959,061 |
| Total | 4,082,377 | 4,973,058 |

Total assets are allocated based on where the assets are located.

5. Expenses by nature

| | Three months ended | | Six months ended | |
|--|--------------------|-------------|------------------|-------------|
| | 30 June | | 30 June | |
| | 2012 | 2011 | 2012 | 2011 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Depreciation | 16,738 | 14,329 | 29,107 | 27,812 |
| Amortisation of land lease payments | 241 | 163 | 483 | 465 |
| Employee benefits expenses (including directors' remuneration) | 8,080 | 8,763 | 18,809 | 16,621 |

6. Income tax expenses

| | Three months ended | | Six months ended | |
|---------------------------------|--------------------|-------------|------------------|-------------|
| | 30 June | | 30 June | |
| | 2012 | 2011 | 2012 | 2011 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Current: | | | | |
| Hong Kong | – | – | – | – |
| Outside Hong Kong | – | 1,018 | – | 9,237 |
| Deferred tax | 614 | 879 | 1,300 | 1,914 |
| Total tax charge for the period | 614 | 1,897 | 1,300 | 11,151 |

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong during the period (2011: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation interpretation and practices in respect thereto.

7. Dividends

No dividend has been paid or declared by the Company or any of the companies comprising the Group during the period ended 30 June 2012 (2011: Nil).

8. (Loss)/earnings per share

The basic loss per share for the three months and six months ended 30 June 2012 are calculated by dividing the loss for the period attributable to ordinary equity holders of the Company of HK\$66,210,000 (2011: profit of HK\$31,635,000) and HK\$107,254,000 (2011: profit of HK\$62,396,000) by the weighted average number of 4,904,653,782 (2011: 3,694,592,616) and 4,496,692,433 (2011: 3,472,562,493) ordinary shares in issue during the corresponding period.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. During the period ended 30 June 2012, the diluted potential shares of the Company is the share option. Because the amount of diluted loss per share is increased when taking share options into account, the share options had an anti-dilutive effect on the basic loss per share for the period and were ignored in the calculation of diluted loss per share.

9. Available-for-sale financial assets

| | 30 June 2012 HK\$'000 (Unaudited) | 31 December 2011 HK\$'000 (Audited) |
|---|--|--|
| Available-for-sale financial assets include the following:– | | |
| Unlisted equity investment in Hong Kong | 165 | 162 |
| Total | 165 | 162 |

10. Inventories

| | 30 June 2012 HK\$'000 (Unaudited) | 31 December 2011 HK\$'000 (Audited) |
|----------------|--|--|
| Raw materials | 563,885 | 838,069 |
| Finished goods | 298,795 | 33,398 |
| Total | 862,680 | 871,467 |

The group has pledged its inventories with book values of approximately HK\$863 million (31 December 2011: approximately HK\$871 million) to banks to secure its banking facilities granted (see note 14).

11. Trade receivables

| | 30 June 2012 HK\$'000 (Unaudited) | 31 December 2011 HK\$'000 (Audited) |
|------------------------|--|--|
| Trade receivable – net | 23,760 | 24,312 |

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 45 to 60 days. At 30 June 2012 and 31 December 2011, the aging analysis of trade receivables based on invoice date are as follows:

| | 30 June 2012 HK\$'000 (Unaudited) | 31 December 2011 HK\$'000 (Audited) |
|--------------|--|--|
| 1 – 30 days | 17 | 810 |
| 31 – 60 days | 3 | – |
| 61 – 90 days | 7 | 702 |
| Over 90 days | 23,733 | 22,800 |
| Total | 23,760 | 24,312 |

As at 30 June 2012 and 31 December 2011, trade receivables were neither past due nor impaired.

12. Cash and cash equivalents

| | 30 June 2012 HK\$'000 (Unaudited) | 31 December 2011 HK\$'000 (Audited) |
|---|--|--|
| Cash at bank and on hand | 102,347 | 934,696 |
| Short-term bank deposits | 204 | 1,556 |
| | 102,551 | 936,252 |
| Less: Pledged time deposit: Pledged for bills payables | (99,471) | (846,096) |
| Cash and cash equivalents | 3,080 | 90,156 |

13. Trade and bills payables

| | 30 June 2012 HK\$'000 (Unaudited) | 31 December 2011 HK\$'000 (Audited) |
|---------------------------------------|--|--|
| Trade payables | 422,222 | 389,223 |
| Bills payables | 714,045 | 1,354,111 |
| Total trade and bills payables | 1,136,267 | 1,743,334 |

At 30 June 2012 and 31 December 2011, the aging analysis of the trade payables, based on the invoice date, were as follows:

| | 30 June 2012 HK\$'000 (Unaudited) | 31 December 2011 HK\$'000 (Audited) |
|---------------|--|--|
| 0 – 30 days | 12,896 | 331,534 |
| 31 – 60 days | – | 24,639 |
| 61 – 90 days | 824 | 3,109 |
| 91 – 180 days | 30,751 | 28,657 |
| Over 180 days | 377,751 | 1,284 |
| Total | 422,222 | 389,223 |

14. Interest bearing bank and other borrowings

As at 30 June 2012, the bank and other borrowings bear interest at rates ranging from 5.56%-47.5% per annum (31 December 2011: 5.56%-47.5% per annum). Certain bank loans are secured by Group's property, plant and equipment, prepaid land lease payments and inventories with the carrying value of approximately HK\$2,818 million as at 30 June 2012 (31 December 2011 approximately HK\$2,872 million).

15. Share Capital

| | Ordinary shares of HK\$0.01 each | |
|---|-------------------------------------|----------|
| | No. of shares | HK\$'000 |
| <i>Authorized:</i> | | |
| At 31 December 2011 and 30 June 2012 | 10,000,000,000 | 100,000 |
| <i>Issued and fully paid:</i> | | |
| At 31 December 2011 | 3,998,275,000 | 39,983 |
| Issue of shares (note (a), (b), (c), (d) and (e)) | 1,103,543,617 | 11,035 |
| At 30 June 2012 | 5,101,818,617 | 51,018 |

Notes:

- (a) On 30 January 2012, the Company entered into a deed of settlement with a loan creditor, pursuant to which the loan would be settled in full by capitalizing the loan (the principal amount together with accrued interest amounted to RMB110,400,000 (approximately HK\$135,792,000)) into the capital of the Company by means of issuing and allotting 664,020,000 shares to the loan creditor. The shares were allotted on 28 March 2012.
- (b) On 13 February 2012, Inno Smart Group Limited ("Inno Smart"), a substantial shareholder of the Company, sold 43,672,000 existing shares of the Company via a share placement exercise at a price of HK\$0.229 per share, and has subscribed for 43,672,000 new shares of the Company at a price of HK\$0.229 per share respectively. The net proceeds from the subscription were approximately HK\$9.65 million.
- (c) On 17 February 2012, the Company entered into two deeds of settlement with two loan creditors, pursuant to which the loans would be settled in full by capitalizing the loans (the total principal amount together with accrued interest amounted to RMB25,902,868 (approximately HK\$31,912,334)) into the capital of the Company by means of issuing and allotting 145,851,617 shares to the loan creditors. The shares were allotted on 28 February 2012.
- (d) On 11 May 2012, Inno Smart sold 112,000,000 existing shares of the Company via a share placement exercise at a price of HK\$0.200 per share, and has subscribed for 112,000,000 new shares of the Company at a price of HK\$0.200 per share respectively. The net proceeds from the subscription were approximately HK\$21.74 million.
- (e) On 5 June 2012, the Company entered into a deed of settlement with a loan creditor, pursuant to which the loan would be settled in full by capitalizing the loan (the principal amount amounted to HK\$30,000,000) into the capital of the Company by means of issuing and allotting 138,000,000 shares to the loan creditor. The shares were allotted on 26 June 2012.

16. Amounts due to directors

The amounts are unsecured, interest-free and have no fixed terms of repayment.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONS REVIEW

For the period ended 30 June 2012, the Group is engaged in (i) fuel oil processing and trading business and (ii) the development and distribution of computer software and related products (the "IT business").

Fuel oil processing and trading business

Carried through from the fourth quarter of 2011 with this period under review, the demand of fuel oil in mainland China decreased as the result of the slowdown in economy growth and decrease in its manufacturing rate in mainland China. In addition, the increase in international crude oil and fuel oil price and the domestic regulation and tight control over the selling price of refined oil products in mainland China has seriously affected the margin of the fuel oil products in mainland China since the third quarter of 2011 (collectively the "Unfavorable Macro Factors"). During the first half of 2012, the fuel oil processing and trading business was continually adversely affected by the Unfavorable Macro Factors with even larger magnitude. The international crude oil and fuel oil price continued to climb to new high since the 2008 financial crisis in the first quarter of 2012, and started to slow down in the second quarter of 2012, on the other hand, the selling prices of refined oil products were still tightly controlled by the China government. Moreover, the worries over the fiscal and sovereign debt crisis in euro-zone countries have further dampened the economy growth and the manufacturing rate as well as the demand of fuel oil in mainland China.

Similar to other companies in the fuel oil processing and trading industry in mainland China, for the period under review, the Group has faced a difficult business environment. The Group recorded gross loss margin of 7.8% in the fuel oil processing and trading business in the first half of 2012, which has deteriorated further from the gross loss margin of 0.8% in the second half of 2011. As compared to the same period of 2011, the gross margin has been eroded completely from a gross profit margin of 8.1% for the 6 months period ended 30 June 2011 to gross loss margin of 7.8% for the 6 months period ended 30 June 2012. In response to the severely Unfavorable Macro Factors and non-profit market conditions of fuel oil processing and trading business, in which the cost of sales was higher than the selling price of the fuel oil products in the first half of 2012, the Group did not go for turnover at the expenses of the profit margin to control the extent of the gross loss of the Group in the fuel oil processing and trading business until the market conditions improved and the gross margins of the fuel oil products returned to a profitable level. Unfortunately, there was no improvement in the market conditions and the margins of the fuel oil products throughout the first half of 2012, as a result, for the period under review, the Group recorded a significant decrease in revenue from approximately HK\$2,499.5 million to approximately HK\$19.0 million.

On the other hand, as further disclosed under the heading “Litigation” in page 21 of this report, the Company, Foshan Ruifeng Petroleum and Chemical Fuel Company Limited (the Company’s major fuel oil processing and trading operating subsidiaries) and certain of its subsidiaries, have been listed as defendants in a total of 28 court cases with total amount claimed against the Group of RMB504.2 million (the “Court Cases”). Except for two of the 28 Court Cases, in which judgments have been entered against a wholly-owned subsidiary of the Company for about RMB38.5 million, the outcomes of the others Court Cases remained uncertain as at the date of this report. Nevertheless, the accumulated effect of the Court Cases may start to have an adverse effect on the Group’s market standing and competitiveness in the fuel oil processing and trading business in mainland China and create further challenges to the Group.

Beside waiting for the market conditions turnaround, in order to actively face the challenges and difficulties of the Group, on 13 April 2012, Inno Smart Group Limited sold 1,100,000,000 shares of the Company (representing approximately 21.56% of the issued share capital of the Company as at 30 June 2012) to Black Sea Horizon Investment Holdings Limited (“Black Sea”), which is a 60%-owned subsidiary of Beijing Black Sea Horizon Investment Holdings Limited (“Beijing Black Sea”). Beijing Black Sea and its subsidiaries are mainly engaged in local and international investments, including the imports and exports and trading of oil, oil storages etc.

With the support of Black Sea and Beijing Black Sea (collectively the “New Substantial Shareholders”) also having business network and expertise in oil industry, the Group will strive to diversify the sourcing of raw materials with the aim to procuring price competitive and stable raw materials to improve the profit margin of the oil products. In addition, the New Substantial Shareholders will continue to assist the Company to maintain constructive dialogues with the plaintiffs of the Court Cases and actively monitor the progress of the Court Cases.

Although the market conditions of the fuel oil processing and trading business in the second half of 2012 may remain as difficult as the first half of 2012, given the continuing economy growth in mainland China, the Group remains cautiously optimistic towards the fuel oil processing and trading business in mainland China for the mid-to-long run despite the uncertainties in the recent complicated economic environment.

Acquisition of Boke

With aim to extend the fuel oil processing and trading business in the mainland China, the Group has entered into a new share purchase Agreement (the “New Agreement”) on 22 July 2011, to acquire the 70% of equity interest in Zhoushan Boke Power Co. Ltd. (“Boke”) and to terminate the old Share Purchase Agreement dated 11 April 2011 to acquire; (i) 100% of equity interest of Boke and; (ii) an option to acquire 100% of equity interest of Zhejiang Yuye Petroleum Co. Ltd. Pursuant to the New Agreement, the considerations for acquiring 70% of equity interest in Boke are approximately RMB33.0 million. The Directors foresee that the Company would be able to increase the market share of oil trading in the mainland China by extending the sales network to the eastern China, as a result of the acquisition. As additional time is required for the fulfillment of the precedent conditions, the Company has entered into a third supplemental agreement on 31 January 2012, pursuant to which the Long Stop Date of the New Share Purchase Agreement has been further extended from 31 January 2012 to 31 March 2012 (or such other date as agreed between the parties to the New Share Purchase Agreement).

As the business registration of the change in 70% equity interest of Boke is still in progress, the Group and the vendor have entered into a fifth supplemental agreement on 29 June 2012 pursuant to which the Long Stop Date of the New Share Purchase Agreement (as supplemented by the supplemental agreements dated 28 October 2011, 28 November 2011, 31 January 2012, 30 March 2012 and 29 June 2012, respectively) has been further extended from 30 June 2012 to 30 September 2012 (or such other date as agreed between the parties to the New Share Purchase Agreement).

Saved as disclosed above, all other terms and conditions of the New Share Purchase Agreement (as supplemented by the supplemental agreements dated 28 October 2011, 28 November 2011, 31 January 2012, 30 March 2012 and 29 June 2012, respectively) remain unchanged and in full force and effect.

Electronic Transaction Platform

On 15 September 2011, the Group has entered into Memorandum of Understanding with the China E-Commerce Association Development Fund to develop and operate an electronic transaction platform for petrochemical products. The Directors believe that, upon the completion of the electronic transaction platform, it will allow the Company to enter into the electronic trading market of the petrochemical products, widen the Company’s income stream and also bring synergy to the existing business. Please refer to the Company’s announcement dated 15 September 2011 for the details.

Strategic Cooperation Agreement with EU China

On 16 October 2011, the Company has entered into the Strategic Cooperation Agreement with EU-China Fund Management Limited (the "EU China") pursuant to which EU China is expected to invest no less than RMB4 billion into the Company within two years from the date of the Strategic Cooperation Agreement. Strategic Cooperation Agreement offers an opportunity to the Group to expand its investment scale in China, including oil refinery, storage and harbor facilities and is a recognition of the Company's business from the market. With the Strategic Cooperation Agreement, the Company could have more capital to further develop its oil trading business, as well as introduce international investors to expand its shareholders base. Please refer to the Company's announcement dated 19 October 2011 for the details.

IT business

The IT business has experienced a decline both in its turnover and gross profit in the reporting period. It recorded revenue of approximately of HK\$2.2 million, representing a 30.3% decrease comparing to same period of last year of approximately of HK\$3.1 million. The decrease is mainly due to the slow recovery of the global economy. The sluggish consumer demand has inevitably hampered the consumer-spending sentiment and hindered the IT business. The gross profit of IT business has been decreased by 15.4% as compared to the same period last year.

FINANCIAL REVIEW

Turnover for the period ended 30 June 2012 decreased to approximately HK\$21.1 million (30 June 2011: approximately HK\$2,502.6 million). The decrease was substantially attributed to significant decrease in sales of the oil processing and trading business.

The fuel oil processing and trading business and IT business contributed gross loss of approximately HK\$1.5 million (30 June 2011: gross profit of approximately HK\$202.8 million) and gross profit of approximately HK\$2.2 million (30 June 2011: gross profit of approximately HK\$2.6 million) to the Group respectively, for the period under review.

The total gross profit of the Group for the period ended 30 June 2012 was approximately HK\$0.7 million (30 June 2011: gross profit of approximately HK\$205.4 million). The overall gross profit margin % of the Group was 3.3% (30 June 2011: approximately 8.2%).

Distribution and Administrative expenses for the period ended 30 June 2012 increased to approximately HK\$64.9 million (30 June 2011: approximately HK\$50.5 million) which was mainly due to the increase in rent and utilities during the period. The finance costs mainly represented the borrowing costs arisen from operation of oil processing business. The decrease in finance costs was in line with the decrease in turnover.

The Group recorded a loss attributable to equity holders of the Company for the period under review of approximately HK\$107.3 million (30 June 2011: profit of approximately HK\$62.4 million). The loss for the period was mainly attributable to significant decrease in sales of the oil processing and trading business.

As at 30 June 2012, the Group's account of cash and bank balances was approximately HK\$3.1 million (2011 : approximately HK\$90.2 million) and had bank borrowings approximately HK\$571.9 million (2011: approximately HK\$634.0 million).

On 25 February 2011, the Company entered into private warrant placing agreements with five independent individuals to place a total of 145,000,000 warrants at the exercise price of HK\$1.2. The net proceeds received by the Company arisen from warrant subscription price were approximately HK\$261,000 which were applied to the Company's working capital. The subscription rights attaching to the warrants were expired on 24 February 2012 and no subscription rights were exercised during the period.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES/FUTURE PLANS FOR MATERIAL INVESTMENTS

Besides the proposed acquisition as mentioned in operations review section, there were no material acquisitions and disposals during the period under review.

GEARING RATIO

As at 30 June 2012, the gearing ratio (the interest-bearing bank and other borrowings divided by total equity) was 56.8% (31 December 2011: 71.1%). The decrease in gearing ratio resulted from repayment of bank borrowings amounting to HK\$61.4 million during the period ended 30 June 2012.

CHARGES ON GROUP ASSETS

As disclosed in the notes 10 and 14 to the financial statements, as at 30 June 2012, the Group's property, plant and equipment, prepaid land lease payments and inventories of approximately HK\$2,818 million (31 December 2011: approximately HK\$2,872 million) were pledged to banks to secure the banking facilities granted.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group operates mainly in mainland China and most of the transactions are denominated in RMB. Given the appreciation of RMB against HKD during the period under review, no financial instrument was used for hedging purposes. It is expected that the appreciation of RMB would have a favourable impact on the Group.

CONTINGENT LIABILITY

The Group did not have any significant contingent liabilities as at 30 June 2012.

SEGMENTAL INFORMATION

The segmental information of the Group's products is set out on pages 11 and 12.

LITIGATION

Reference is made to the announcements of the Company on 1 March 2012, 27 March 2012, 5 April 2012, 18 April 2012, 26 April 2012, 7 May 2012, 17 May 2012, 6 June 2012, 20 June 2012, 9 July 2012 and 1 August 2012, the Company, Foshan Ruifeng Petroleum and Chemical Fuel Company Limited, the Company's major operating subsidiary, together with its wholly-owned subsidiaries in mainland China and other parties, have been listed as defendants in a total of 28 Court Cases pending before various courts in mainland China, alerting default in repayment of debts. The total amount claimed in the 28 Court Cases is about RMB504.2 million. For most of the 28 Court Cases, applications have been made to the court for deferment of trial (向法院申請延期審理) and/or for disputing the court's jurisdiction (提出管轄權異議). In two of the 28 Court Cases, judgments have been entered against a wholly-owned subsidiary of the Company for about RMB38.5 Million. For details, please refer to the table below.

The PRC legal advisors engaged by the Company have actively followed up the 28 Court Cases and their updates are as follows:

| No. | Case number | Plaintiff | Major Reliefs Sought | Updates |
|-----|--|--|---|---|
| 1 | (2012) Fo Zhong Fa Min Si Chu Zi No. 27 ((2012) 佛中法民四初字第27號) | Foshan Nanhai Branch of Industrial and Commercial Bank of China (中國工商銀行股份有限公司佛山南海支行) | Repayment of approximately RMB35,445,154 and others | Pursuant to the judgement that the Company received on 6 July 2012, (i) Ruifeng Fuel Company shall pay the principal of the loans of RMB35,445,153.82 and accrued interest to the plaintiff within 10 days from the date of the Judgment comes into legal effect; (ii) the plaintiff shall have priority of compensation over collaterals provided by Ruifeng Fuel Company and other defendants under the scope of liability determined by the Judgment in paragraph (i); and (iii) each of the defendants shall jointly undertake guarantee liability should the collaterals in paragraph (ii) fail to settle obligations exceeding the principal and its interests involved in the case. The Company and each of the defendants may submit an appeal to the court within a specific period subsequent to the judgement being served to all the defendants. Please also refer to the announcement of the Company on 9 July 2012 for details. |

| No. | Case number | Plaintiff | Major Reliefs Sought | Updates |
|-----|--|---|--|---|
| 2 | (2012) Fo Cheng Fa Min Er Chu Zi No. 338 ((2012) 佛城法民二初字第338號) | Foshan Shiwan Branch of Agricultural Bank of China (中國農業銀行股份有限公司佛山石灣支行) | Claim approximately RMB28,080,000 and others | Application for a deferment of trial has been granted by the court. The hearing originally set on 12 April 2012 has been rescheduled and exact date and time will be notified by the court. |
| 3 | (2012) Fo Cheng Fa Min Er Chu Zi No. 339 ((2012) 佛城法民二初字第339號) | Foshan Shiwan Branch of Agricultural Bank of China (中國農業銀行股份有限公司佛山石灣支行) | Claim approximately RMB16,180,000 and others | Application for a deferment of trial has been granted by the court. The hearing originally set on 12 April 2012 has been rescheduled and exact date and time will be notified by the court. |
| 4 | (2012) Fo Cheng Fa Min Er Chu Zi No. 340 ((2012) 佛城法民二初字第340號) | Foshan Shiwan Branch of Agricultural Bank of China (中國農業銀行股份有限公司佛山石灣支行) | Claim approximately RMB24,210,000 and others | Application for a deferment of trial has been granted by the court. The hearing originally set on 12 April 2012 has been rescheduled and exact date and time will be notified by the court. |
| 5 | (2012) Fo Cheng Fa Min Er Chu Zi No. 341 ((2012) 佛城法民二初字第341號) | Foshan Shiwan Branch of Agricultural Bank of China (中國農業銀行股份有限公司佛山石灣支行) | Claim approximately RMB46,800,000 and others | Application for a deferment of trial has been granted by the court. The hearing originally set on 12 April 2012 has been rescheduled and exact date and time will be notified by the court. |
| 6 | (2012) Fo Cheng Fa Min Er Chu Zi No. 298 ((2012) 佛城法民二初字第298號) | Foshan Branch of Guangfa Bank (廣發銀行股份有限公司佛山分行) | Claim approximately RMB21,220,000 and others | Application for a deferment of trial has been granted by the court. The hearing originally set on 13 April 2012 has been rescheduled to 17 August 2012. |

| No. | Case number | Plaintiff | Major Reliefs Sought | Updates |
|-----|--|--|--|---|
| 7 | (2012) Fo Cheng Fa Min Er Chu Zi No. 300 ((2012) 佛城法民二初字第300號) | Chancheng Zhangcha Credit Society (佛山市禪城區農村信用合作聯社張槎信用社) | Claim approximately RMB20,370,000 and others | Application was made to the court for disputing jurisdiction within the responding period. The court has yet to award a judgment. Application for a deferment of trial has been granted by the court. The hearing originally set on 13 April 2012 has been rescheduled and exact date and time will be notified by the court. |
| 8 | (2012) Fo Cheng Fa Min Er Chu Zi No. 301 ((2012) 佛城法民二初字第301號) | Chancheng Zhangcha Credit Society (佛山市禪城區農村信用合作聯社張槎信用社) | Claim approximately RMB20,370,000 and others | Application was made to the court for disputing jurisdiction within the responding period. The court has yet to award a judgment. Application for a deferment of trial has been granted by the court. The hearing originally set on 13 April 2012 has been rescheduled and exact date and time will be notified by the court. |
| 9 | (2012) Fo Cheng Fa Min Er Chu Zi No. 302 ((2012) 佛城法民二初字第302號) | Chancheng Zhangcha Credit Society (佛山市禪城區農村信用合作聯社張槎信用社) | Claim approximately RMB25,420,000 and others | Application was made to the court for disputing jurisdiction within the responding period. The court has yet to award a judgment. The hearing originally set on 13 April 2012 has been rescheduled and exact date and time will be notified by the court. |
| 10 | (2012) Fo Cheng Fa Min Er Chu Zi No. 303 ((2012) 佛城法民二初字第303號) | Chancheng Zhangcha Credit Society (佛山市禪城區農村信用合作聯社張槎信用社) | Claim approximately RMB35,520,000 and others | Application was made to the court for disputing jurisdiction within the responding period. The court has yet to award a judgment. Application for a deferment of trial has been granted by the court. The hearing originally set on 13 April 2012 has been rescheduled and exact date and time will be notified by the court. |

| No. | Case number | Plaintiff | Major Reliefs Sought | Updates |
|-----|--|--|--|--|
| 11 | (2012) Guang Hai Fa Chu Zi No. 170 ((2012) 廣海法初字第170號) | Foshan Shende District Haiboshun Shipping Services Company Limited (佛山市順德區海駁順船務有限公司) | Claim approximately RMB731,000 and others | Trial commenced on 10 April 2012, and a mediation proposal had been submitted to the court by Ruifeng Fuel Company. Ruifeng Fuel Company had received the civil mediation order from the court in late July 2012, and has been communicating with the court and the plaintiff in respect of the mediation. |
| 12 | (2012) Guang Hai Fa Chu Zi No. 177 ((2012) 廣海法初字第177號) | Jiangjian Fuda Waters Conveyance and Shipping Services Company Limited (湛江市富達水運船務有限公司) | Claim approximately RMB1,120,000 and others | Trial commenced on 13 April 2012, and a mediation proposal had been submitted to the court by Ruifeng Fuel Company. Ruifeng Fuel Company had received the civil mediation order from the court in late July 2012, and has been communicating with the court and the plaintiff in respect of the mediation. |
| 13 | (2012) Sui Tian Fa Zhi Zi No. 516 ((2012) 穗天法執字第516號) | Ong Huayin (翁華銀) | Payment of approximately RMB3,040,000 and others | The plaintiff has not taken any effective actions to execute the judgment and the court has not issued any specific plan of enforcement. The Company has continued its negotiation with the plaintiff. |
| 14 | (2012) Fo San Fa Min Er Chu Zi No. 103 ((2012) 佛三法民二初字第103號) | Zibo Zeyu Fuel Company Limited (淄博澤宇燃料有限公司) | Claim approximately RMB9,820,000 and others | A mediation has been achieved under the direction of the court. |
| 15 | (2012) Sui Tian Fa Min Er Chu Zi No. 440 ((2012) 穗天法民二初字第440號) | Ong Huayin (翁華銀) | Claim approximately RMB3,210,000 and others | Trial originally scheduled on 17 May 2012 has been postponed and the exact date and time for the trial will be notified by the court. |

| No. | Case number | Plaintiff | Major Reliefs Sought | Updates |
|-----|--|---|--|--|
| 16 | (2012) Sui Tian Fa Min Er Chu Zi No. 441 ((2012) 穗天法民二初字第441號) | Ong Huayin (翁華銀) | Claim approximately RMB3,210,000 and others | Trial originally scheduled on 17 May 2012 has been postponed and the exact date and time for the trial will be notified by the court. |
| 17 | (2012) Sui Tian Fa Min Er Chu Zi No. 442 ((2012) 穗天法民二初字第442號) | Ong Huayin (翁華銀) | Claim approximately RMB3,110,000 and others | Trial originally scheduled on 17 May 2012 has been postponed and the exact date and time for the trial will be notified by the court. |
| 18 | (2012) Guang Hai Fa Chu Zi Di No. 260 ((2012) 廣海法初字第260號案件) | Fo Shan Hai Xiong Shipping Co. Ltd. (佛山市海雄航運有限公司) | Claim approximately RMB1,000,000 and others | The case was heard on 26 April 2012. Both sides indicated their willingness to settle the dispute through mediation. A mediation proposal had been submitted to court in mid-June 2012, Ruifeng Fuel Company had received the civil mediation order from the court in late July 2012, and has been communicating with the court and the plaintiff in respect of the mediation. |
| 19 | Pending notification from the court | Mr. Wei Bin (魏濱) | Claim approximately RMB25,415,000 and others | Trial set to commence on 20 September 2012. Ruifeng Fuel Company will continue to communicate with the plaintiff. |
| 20 | (2012) Guang Hai Fa Chu Zi No. 324 ((2012) 廣海法初字第324號) | Jiangxi Xinghai Marine Company Limited (江西星海航運有限公司) | Claim approximately RMB321,126 | Trial commenced on 21 May 2012. A mediation proposal had been submitted to the court by Ruifeng Fuel Company. Ruifeng Fuel Company had received the civil mediation order from the court in late of July 2012, and has been communicating with the court and the plaintiff in respect of the mediation. |

| No. | Case number | Plaintiff | Major Reliefs Sought | Updates |
|-----|--|--|--|--|
| 21 | (2012) Guang Hai Fa Chu Zi No. 290 ((2012) 廣海法初字第290號) | Guangxi Zhenhai Shipping Services Company Limited (廣西振海船務有限公司) | Claim approximately RMB200,000 and others | Trial commenced on 5 June 2012. Ruifeng Fuel Company had submitted a mediation proposal to the court and is awaiting further instruction from the court. |
| 22 | (2012) Fo Zhong Fa Min Er Chu Zi No. 3 ((2012) 佛中法民二初字第3號) | Industrial Bank Co., Ltd., Foshan branch (興業銀行股份有限公司佛山分行) | Claim approximately RMB39,960,000 and others | Trial originally scheduled on 31 May 2012 has been postponed to 6 August 2012 and commenced accordingly. Ruifeng Fuel Company has made an application to the court to identify the actual subject matters related to litigation raised by the plaintiff. The court has not yet fixed the date for the next session of trial. |
| 23 | (2012) Fo San Fa Min Er Chu Zi No. 287 ((2012) 佛三法民二初字第287號) | Guangdong Xinhao Fuel Company Limited (廣東新濠燃料有限公司) | Claim approximately RMB415,088 and others | Trial commenced on 13 June 2012. The plaintiff is pondering to settle the dispute with Ruifeng Fuel Company through mediation. Ruifeng Fuel Company is in the process of preparing a mediation proposal. The court has not yet fixed the date for the next session of trial. |
| 24 | (2012) Fo San Fa Min Er Chu Zi No. 288 ((2012) 佛三法民二初字第288號) | Zhejiang Meike Energy Company Limited (浙江美科能源有限公司) | Claim approximately RMB3,000,000 and others | Trial commenced on 13 June 2012. The plaintiff is pondering to settle the dispute with Ruifeng Fuel Company through mediation. Ruifeng Fuel Company is in the process of preparing a mediation proposal. The court has not yet fixed the date for the next session of trial. |

| No. | Case number | Plaintiff | Major Reliefs Sought | Updates |
|-----|--|---|---|---|
| 25 | (2012) Fo Zhong Fa Min Si Chu Zi No. 62 ((2012) 佛中法民四初字第62號) | Li Yao (李婁) | Claim approximately RMB28,000,000 and others | As the name of a defendant has been found incorrect, the court has deferred the commencement of the first hearing from 28 June 2012 to 23 August 2012. |
| 26 | (2012) FoSan Fa Min Yi Chu Zi No. 989 ((2012) 佛三法民一初字第989號) | Foshan Xintailong Environmental Protection Equipment Manufacture Co., Ltd. (佛山市新泰隆環保設備製造有限公司) | Claim approximately construction cost RMB990,000 and others | An application for quality assurance procedure has been filed with the court. Hearing originally scheduled on 6 June 2012 has been postponed. |
| 27 | (2012) Sui Tian Fa Min Er Chu Zi No. 508 ((2012) 穗天法民二初字第508號) | China Everbright Bank Guangzhou Branch (中國光大銀行股份有限公司廣州分行) | Claim approximately RMB30,000,000 and others | Trial commenced on 26 June 2012. The case is in proof stage and Ruifeng Fuel Company is awaiting for the notification of next hearing from court. |
| 28 | (2012) Sui Zhong Fa Min Si Chu Zi Di No. 98 ((2012) 穗中法民四初字第98號) | Huaxia Bank Co., Ltd. Guangzhou Baiyun Branch (華夏銀行股份有限公司廣州白雲支行) | Claim approximately RMB77,072,045 and others | Trial set to commence on 25 September 2012. The Company is communicating with plaintiff to clarify the situations and may apply for a deferment of trial. |

The Company is actively following up the Court Cases and evaluating their impact to the Company, and will make further announcement on any significant development regarding the Court Cases in due course.

EMPLOYEES

As at 30 June 2012, the Group had approximately 380 full-time employees. The aggregate remuneration of the Group's employees, including that of the directors, for the period under review and the previous period amounted to approximately HK\$18.8 million and approximately HK\$17.0 million respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Each of the executive Directors has entered into a service contract with the Company for the term of two years. Under the service contracts, after each completed year of service, the remuneration payable to each of them may, subject to the discretion of the directors, be adjusted and each will be entitled to a discretionary bonus.

Other remuneration and benefits, including retirement benefits scheme, remained at appropriate level. Particulars are detailed in the relevant section of this report.

Save as disclosed hereof, no information on relation to the Group's performance has changed materially from information disclosed in the Company's 2011 annual report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2012, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in 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 to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Long (L) and Short (S) position in ordinary shares of the Company

| Name | Beneficial owner | No. of shares held by controlled corporation | Total | Percentage of the issued share capital of the Company |
|--|------------------|--|------------------------------------|---|
| Directors | | | | |
| Mr. Chan Wai Lun Anthony (Note 1) | | 1,100,000,000 (L) | 1,100,000,000 (L) | 21.56% (L) |
| Mr. Yu Won Kong Dennis (Notes 2, 3 & 5) | 44,218,000 (L) | 775,000,000 (L) 100,000,000 (S) | 819,218,000 (L) 100,000,000 (S) | 16.06% (L) 1.96% (S) |
| Mr. Yue Wai Keung (Notes 2, 4 & 5) | 40,000,000 (L) | 775,000,000 (L) 100,000,000 (S) | 815,000,000 (L) 100,000,000 (S) | 15.97% (L) 1.96% (S) |
| Mr. Chan Kwan Pak | 3,000,000 (L) | – | 3,000,000 (L) | 0.06% (L) |
| Dr. Chen Tyzh-Trong | 3,000,000 (L) | – | 3,000,000 (L) | 0.06% (L) |
| Dr. Lee Chung Mong | 3,000,000 (L) | – | 3,000,000 (L) | 0.06% (L) |

Notes:

1. Black Sea Horizon Investment Holdings Limited (“Black Sea”), a company incorporated in Hong Kong with limited liability, is beneficially owned as to 60% by Ms. Zhao Shu Min and is beneficially and jointly owned 40% by Mr. Chan Wai Lun Anthony (“Mr. Chan”) (the Chairman and executive Director) and Mr. Chan Kin Wah Daniel who is the son of Mr. Chan.
2. Inno Smart Group Limited (“Inno Smart”) is beneficially owned 50% by Daylight Express Investments Limited and 50% by Billion Sky Resources Limited. For the purpose of Part XV of the SFO, each of Daylight Express Investments Limited and Billion Sky Resources Limited is deemed to be interested in the shares of the Company held by Inno Smart.
3. Daylight Express Investments Limited is wholly owned by Strong Choice Investments (Holdings) Limited, which is in turn wholly owned by Mr. Yu Won Kong Dennis (“Mr. Yu”), an executive Director. For the purpose of the Part XV of SFO, Daylight Express Investments Limited is deemed to be interested in the shares of the Company which Strong Choice Investments (Holdings) Ltd is interested in. Mr. Yu is deemed to be interested in the shares of the Company which Daylight Express Investments Limited is interested in. Mr. Yu’s spouse, Ho Siu Lan Sandy is deemed to be interested in the Shares directly and indirectly held by Mr. Yu.
4. Billion Sky Resources Limited is wholly owned by Mr. Yue Wai Keung (“Mr. Yue”), an executive Director. For the purpose of Part XV of SFO, Mr. Yue is deemed to be interested in the shares of the Company which Billion Sky Resources Limited is interested in. Mr. Yue’s spouse, Man Wing Tuen is deemed to be interested in the Shares indirectly held by Mr. Yue.
5. On 17 November 2011, Inno Smart, granted a share charge in favour of Southernpec (HK) Holding Limited. Pursuant to the share charge, Inno Smart agreed to create a charge over 100,000,000 shares held by it.

Save as disclosed above, as at 30 June 2012, none of the Directors or chief executive of the Company had 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) 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 and short positions in 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 to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of GEM Listing Rules relating to securities transactions by Directors.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, so far as was known to any Directors or chief executive of the Company, the following persons or companies (other than a director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, directly or indirectly, interested in five per cent or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such capital:

Long (L) and Short (S) position in ordinary shares of the Company

| Name | Capacity | Number of ordinary shares held | Approximate percentage of the Company's issued share capital |
|---|------------------------------------|--------------------------------|--|
| Black Sea Horizon Investment Holdings Limited (Note 1) | Beneficial interest | 1,100,000,000 (L) | 21.56% (L) |
| Beijing Black Sea Horizon Investment Holdings Limited (Note 1) | Interest of controlled corporation | 1,100,000,000 (L) | 21.56% (L) |
| Investia Consultancy Limited (Note 1) | Interest of controlled corporation | 1,100,000,000 (L) | 21.56% (L) |
| Mr. Chan Kin Wah Daniel (Note 1) | Beneficial interest | 1,100,000,000 (L) | 21.56% (L) |
| Ms. Zhao Shu Min (Note 1) | Beneficial interest | 1,100,000,000 (L) | 21.56% (L) |
| Inno Smart Group Limited (Notes 2 & 4) | Beneficial interest | 775,000,000 (L) | 15.19% (L) |
| | Beneficial interest | 100,000,000 (S) | 1.96% (S) |
| Strong Choice Investments (Holdings) Limited (Note 2) | Interest of controlled corporation | 775,000,000 (L) | 15.19% (L) |
| | Interest of controlled corporation | 100,000,000 (S) | 1.96% (S) |

| Name | Capacity | Number of ordinary shares held | Approximate percentage of the Company's issued share capital |
|---|--------------------------------------|--------------------------------|--|
| Billion Sky Resources Limited (Note 2) | Interest of a controlled corporation | 775,000,000 (L) | 15.19% (L) |
| | Interest of a controlled corporation | 100,000,000 (S) | 1.96% (S) |
| Ms. Ho Siu Lan, Sandy (Note 4) | Interest of child under 18 or spouse | 819,128,000 (L) | 16.06% (L) |
| | Interest of child under 18 or spouse | 100,000,000 (S) | 1.96% (S) |
| Ms. Man Wing Tuen (Note 5) | Interest of child under 18 or spouse | 815,000,000 (L) | 15.97% (L) |
| | Interest of child under 18 or spouse | 100,000,000 (S) | 1.96% (S) |
| Mr. Xu Ziming | Beneficial owner | 475,562,400 | 9.32% |

Notes:

- Black Sea is a company incorporated in Hong Kong with limited liabilities and is 60% owned by Mr. Chan Wai Lun, Anthony (the Chairman and executive Director) in trust for 北京黑海宏業投資控股有限公司 (for identification purpose only, with English translation as "Beijing Black Sea Horizon Investment Holdings Limited") ("Beijing Black Sea") and 40% by Investia Consultancy Limited ("Investia") which is beneficially and jointly owned as to 50% by Mr. Chan Wai Lun, Anthony and as to 50% by Mr. Chan Kin Wah Daniel who is the son of Mr. Chan Wai Lun Anthony. Beijing Black Sea is an enterprise established in the PRC. Investia is a company incorporated in British Virgin Islands with limited liabilities.
- For the details of Inno Smart, please refer to Notes 2 to 4 in the "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" section for details.
- Please refer to Note 2 & 3 in the "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" section for details.
- On 17 November 2011, Inno Smart, granted a share charge in favour of Southernpec (HK) Holding Limited. Pursuant to the share charge, Inno Smart Group Limited agreed to create a charge over 100,000,000 shares held by it. For the details of Inno Smart Group Limited, please refer to Notes 2 to 4 in the "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" section for details.
- Ms. Ho Siu Lan, Sandy is the spouse of Yu Won Kong Dennis, an executive director of the Company.
- Ms. Man Wing Tuen is the spouse of Yue Wai Keung, an executive director of the Company.

Save as disclosed above, there is no person (other than a director or chief executive of the Company) known to the Directors or chief executive of the Company, who, as at the date of this report, had or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in five per cent or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or had any options in respect of such capital.

Save as disclosed above, as at 30 June 2012, no person had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Share Option Scheme

On 22 August 2011, 246,900,000 share options were granted under the share option scheme (the "Previous Scheme") which was adopted by the Company, on 2 February 2002 and expired on 2 February 2012.

A new share option scheme (the "2012 Share Option Scheme") was approved and adopted on 22 March 2012 and the Directors of the Company were authorised to grant options to the eligible participants in order to recognise and motivate the contribution of the employees of the Group and to provide incentives and help the Group in retaining existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Group. For details, please refer to announcements of the Company dated 5 and 22 March 2012. There is no share option granted during the period under review.

The following table discloses movements in the outstanding share options granted under the Previous Scheme during the period:

| Grantee | Date of grant | Outstanding at 1 January 2012 | Granted during the period | Lapsed during the period | Outstanding at 30 June 2012 | Exercise period | Exercise price |
|--|----------------|-------------------------------|---------------------------|--------------------------|-----------------------------|--------------------------------------|----------------|
| (Executive Directors) | | | | | | | |
| Mr. Yu Won Kong Dennis | 22 August 2011 | 20,000,000 | - | - | 20,000,000 | 22 February 2012 to 22 February 2014 | HK\$0.706 |
| | 22 August 2011 | 20,000,000 | - | - | 20,000,000 | 22 February 2013 to 22 February 2014 | HK\$1.059 |
| Mr. Yue Wai Keung | 22 August 2011 | 20,000,000 | - | - | 20,000,000 | 22 February 2012 to 22 February 2014 | HK\$0.706 |
| | 22 August 2011 | 20,000,000 | - | - | 20,000,000 | 22 February 2013 to 22 February 2014 | HK\$1.059 |
| (Non-executive Director) | | | | | | | |
| Mr. Chan Kwan Pak | 22 August 2011 | 1,500,000 | - | - | 1,500,000 | 22 February 2012 to 22 February 2014 | HK\$0.706 |
| | 22 August 2011 | 1,500,000 | - | - | 1,500,000 | 22 February 2013 to 22 February 2014 | HK\$1.059 |
| (Independent Non-executive Directors) | | | | | | | |
| Dr. Chen Tzyh-Trong | 22 August 2011 | 1,500,000 | - | - | 1,500,000 | 22 February 2012 to 22 February 2014 | HK\$0.706 |
| | 22 August 2011 | 1,500,000 | - | - | 1,500,000 | 22 February 2013 to 22 February 2014 | HK\$1.059 |
| Dr. Lee Chung Mong | 22 August 2011 | 1,500,000 | - | - | 1,500,000 | 22 February 2012 to 22 February 2014 | HK\$0.706 |
| | 22 August 2011 | 1,500,000 | - | - | 1,500,000 | 22 February 2013 to 22 February 2014 | HK\$1.059 |

| Grantee | Date of grant | Outstanding at 1 January 2012 | Granted during the period | Lapsed during the period | Outstanding | | Exercise price |
|--|----------------|-------------------------------------|---------------------------------|--------------------------------|-----------------------|---|-------------------|
| | | | | | at 30 June 2012 | Exercise period | |
| Mr. Yeung Chi Hung (retired on 7 May 2012) | 22 August 2011 | 1,500,000 | - | 1,500,000 | - | 22 February 2012 to 22 February 2014 | HK\$0.706 |
| | 22 August 2011 | 1,500,000 | - | 1,500,000 | - | 22 February 2013 to 22 February 2014 | HK\$1.059 |
| Mr. So Sang Yee, Philip (resigned on 31 January 2012) | 22 August 2011 | 20,000,000 | - | (20,000,000) | - | 22 February 2012 to 22 February 2014 | HK\$0.706 |
| | 22 August 2011 | 20,000,000 | - | (20,000,000) | - | 22 February 2013 to 22 February 2014 | HK\$1.059 |
| | 22 August 2011 | 20,000,000 | - | (20,000,000) | - | 22 February 2014 to 22 February 2015 | HK\$1.376 |
| Other employees | | | | | | | |
| In aggregate | 22 August 2011 | 47,450,000 | - | (6,950,000) | 40,500,000 | 22 February 2012 to 22 February 2014 | HK\$0.706 |
| | 22 August 2011 | 47,450,000 | - | (6,950,000) | 40,500,000 | 22 February 2013 to 22 February 2014 | HK\$1.059 |
| Total | | 246,900,000 | - | (76,900,000) | 170,000,000 | | |

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Save as disclosed under the heading "Litigation" in this report, the Company had the following significant event after the reporting period. Reference is made to the announcements of the Company dated 31 May 2012, 8 June 2012 and the circular of the Company dated 6 June 2012 in relation to the proposed grant of specific mandate to issue shares to four creditors, all being independent third parties and not connected with the Company and its connected persons, for the settlement of four loans of total amount of RMB\$63,465,983.56 (approximately HK\$77,682,363.88).

Pursuant to ordinary resolutions duly passed by the shareholders by way of poll at the extraordinary general meeting held on 24 July 2012, four batches of loan settlement shares of a total of 388,411,819 new shares were issued at the issue price of HK\$0.20 per share and allotted on 30 July 2012.

By settling its debts in a manner that preserves liquidity, the Company believe it should emerge from the transactions with lower gearing, which, coupled with the fact the Company can offload the interest and principal of the relevant debt, should render the Company less vulnerable to downturns in the business cycle.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six-month period ended 30 June 2012, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

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. Having made specific enquiry of all directors, the Company's directors have complied with the required standard of dealings and the Company's code of conduct regarding securities transactions by the directors throughout the six-month period ended 30 June 2012.

COMPETING INTEREST

None of the directors or the management shareholders and their respective associates of the Company (as defined in the GEM Listing Rules) had any business or interest which competes or may compete with the business of the Group nor any other conflicts of interest with the Group during the period under review.

COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE PRACTICE

The Company applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the period under review except that, following the retirement of Mr. Yeung Chi Hung, an independent non-executive director of the Company, on 7 May 2012, the Company had only two independent non-executive directors and two audit committee members, the number of which fell below the minimum number required under Rules 5.05(1) and 5.28 of the GEM Listing Rules until the Company appointed Mr. Li Wing Sum Steven to fill in the vacancy on 1 June 2012.

AUDIT COMMITTEE

The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, Dr. Chen Tzyh-Trong, Dr. Lee Chung Mong, and Mr. Li Wing Sum Steven. All of them are independent non-executive directors of the Company.

The Group's unaudited condensed consolidated financial information for the six-months ended 30 June 2012 have been 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 disclosure has been made.

DIRECTORS OF THE COMPANY

Executive directors of the Company as at the date of this report are Mr. Chan Wai Lun Anthony, Mr. Yu Won Kong Dennis, Mr. Yue Wai Keung and Mr. Guo Jing Sheng; the non-executive director is Mr. Chan Kwan Pak; and the independent non-executive directors are Dr. Chen Tzyh-Trong, Dr. Lee Chung Mong and Mr. Li Wing Sum Steven.

ON BEHALF OF THE BOARD

Chan Wai Lun Anthony

Chairman

Hong Kong
14 August 2012