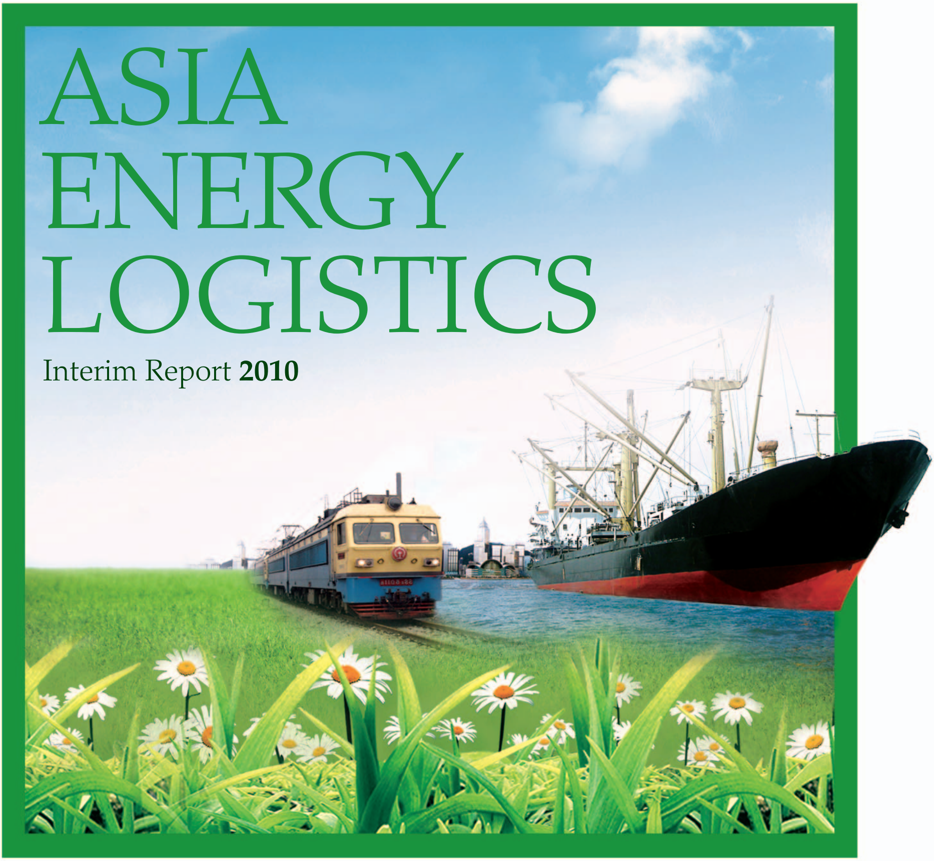
ASIA ENERGY LOGISTICS

Interim Report **2010**



亞洲能源物流集團有限公司

Asia Energy Logistics Group Limited

(Incorporated in Hong Kong with limited liability)

Stock Code: 0351

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Management Discussion and Analysis

Business Review

The Company and its subsidiaries (together, the "Group") is principally engaged in the (i) municipal solid waste incineration and power generation businesses; (ii) railway construction and operation; and (iii) shipping and logistics business.

Waste Incineration and Power Generation

During the period under review, the unaudited turnover of our waste incineration power plant in the People's Republic of China (the "PRC") was approximately HK$69,200,000, representing an increase of approximately 27% compared to the previous corresponding period. The board of directors of the Company (the "Board") considers the overall performance of this business segment satisfactory.

On 11 February 2010, Palace View International Limited ("Palace View"), a wholly-owned subsidiary of the Company, renewed the Operation Agreement dated 13 February 2009 (the "First Operation Consultation Agreement") with 上海保利協鑫電力運行管理有限公司 (Shanghai GCL-Poly Electricity Operating Management Co. Ltd.#) ("Shanghai GCL") for a further term of one year (the "Second Operation Consultation Agreement"). Under the Second Operation Consultation Agreement, Shanghai GCL agreed to continue providing consultation services with respect to the operation of the municipal solid waste incineration power plant owned by 東莞中科環保電力有限公司 (Dongguan China Sciences Conservational Power Limited#), which is an indirect wholly-owned subsidiary of Palace View. As was the case with the First Operation Consultation Agreement, the Second Operation Consultation Agreement constituted a continuing connected transaction for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and details of which have been set out in the Company's announcement dated 11 February 2010.

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Railway Construction and Operations

Since July 2009, the Group has expanded its business to railway construction and operations through the acquisition of 70% equity interest in Gofar Holdings Limited ("Gofar"). During the period under review, the Group has further increased its stake in the said business by taking up the remaining 30% equity interest of Gofar on 11 February 2010. As the Zunxiao Railway is still in the construction stage, no turnover has been recognized by the Group in this business segment during the period under review. For further details of Gofar and Zunxiao Railway, please also refer to the section headed "Prospects" below.

Shipping and Logistic Business

Following the completion of the acquisition of the entire interest in Ocean Jade Investments Limited ("Ocean Jade") on 19 May 2010, the Group has further diversified its business into the dry bulk shipping industry.

Pursuant to a shareholders' agreement dated 1 December 2009 (as amended by a supplemental agreement also dated 1 December 2009) (collectively, the "Shareholders' Agreements") between Ocean Jade and Waibert Navigation Company Limited ("Waibert"), a joint venture (the "JV Company") has been formed with the aim to procure the business of (a) investment in ships assets (dry bulk carriers); (b) providing transportation services for coal shipment within the PRC and internationally; and (c) other business as may from time to time be agreed in writing by all the shareholders of the JV Company, including but not limited to terminal investment, management and/or operation as well as logistics operations.

Under the Shareholders' Agreements, the JV Company and its subsidiaries ("the JV Group") intend to acquire a total of 4 vessels, being two Handy-size vessels and two Panamax Vessels, at prevailing market price in the region of US$114 million in aggregate within a period of 9 months from the date of the Shareholders' Agreements. The JV Group has acquired two Handy-size vessels for a consideration of RMB175,000,000 and RMB178,800,000 on 30 April 2010 and 10 August 2010 respectively. Due to the market conditions, the parties to the Shareholders' Agreements agreed and understood that the acquisition of the other two vessels will be completed on or before 30 June 2011 and that the type of these two vessels may be Panamax and/or Supermax.

The JV Group has taken delivery of the first Handy-size vessel in August 2010. The second Handy-size vessel is expected to be delivered before the end of this year. As the JV Group is still in the investment stage, no turnover or profit has been generated in this business segment during the period under review. For further details of the JV Group, please also refer to the section headed “Prospects” below.).

Financial Review

During the period under review, the turnover of the Group was approximately HK$69,182,000 (30 June 2009: approximately HK$54,566,000), representing an increase of approximately 27% as compared to the previous corresponding period. The Group recorded a loss for the period under review of approximately HK$42,457,000 (30 June 2009: Loss of approximately HK$56,883,000). Loss per share was HK0.33 cent (30 June 2009: HK0.7 cent).

Liquidity and Financial Resources

The Group is mainly financed by various borrowings, shareholders’ equity and internally generated cash flows.

As at 30 June 2010, the Group had bank and cash balances of approximately HK$126,000,000 and secured bank loans of approximately HK$282,000,000 repayable within five years. The average effective interest rate for the period was 6.08% (2009: 6.29%) per annum.

The gearing ratio of the Group as at 30 June 2010, which was calculated as net debt divided by total capital, was approximately 37% (31 December 2009: approximately 46%).

Capital Structure

As at 30 June 2010, the total number of issued shares of the Company ("Shares") was 12,857,027,100 of HK$0.01 each (31 December 2009: 10,257,027,100 Shares).

During the period under review, convertible bonds in the principal amount of HK$5,000,000 were converted into 100,000,000 new Shares. Furthermore, 1,500,000,000 and 1,000,000,000 new Shares were respectively allotted and issued pursuant to the placing and subscription agreement dated 15 January 2010 and the sale and purchase agreement dated 24 August 2009.

Fund Raising Activities

On 15 January 2010, King Castle Enterprises Limited (the "Vendor"), CITIC Securities Brokerage (HK) Limited, the Company and Mr. Ko Fong (the sole beneficial owner of the Vendor) entered into the conditional agreement in relation to (i) the placing of a maximum of 1,500,000,000 Shares (the "Placing Shares") beneficially owned by the Vendor (the "Placing") and (ii) the subscription of a maximum of 1,500,000,000 new Shares by the Vendor ("Top-up Subscription"). The Placing and the Top-up Subscription were both completed on 29 January 2010. 1,500,000,000 Placing Shares were successfully placed to not fewer than six placees at the price of HK$0.159 per Placing Share while 1,500,000,000 new Shares were allotted and issued to the Vendor by the Company at the subscription price of HK$0.159 per new Share. Details of the Placing and the Top-up Subscription have been disclosed in the Company's announcements dated 17 and 22 January 2010 respectively. Net proceeds from the Placing and the Top-up Subscription were approximately HK$230,150,000 and will mainly be used for the Group's investment in the shipping and logistic business, the working capital of railway construction and operation business as well as general working capital of the Group.

Exposure to Fluctuation in Exchange Rates

The Group's assets, liabilities and transactions are mainly denominated either in Hong Kong dollar or Renminbi. As the exchange rate of the US dollar to Renminbi is relatively stable due to the PRC foreign exchange policy and the Hong Kong dollar's peg to the US dollar, the directors of the Company ("Directors") consider that the Group's foreign currency exchange risk is within an acceptable range. Therefore, no hedging devices or other alternatives have been implemented.

Material Acquisitions and Disposals of Subsidiaries

As disclosed in the Company's circular dated 23 November 2009, Sharprise Holdings Limited, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Fast Sky Holdings Limited (as vendor) and Mr. Zhu Gongshan ("Mr. Zhu"), being a director of Gofar (as guarantor) for the acquisition of the remaining 30% equity interest in Gofar. This acquisition constituted a connected and discloseable transaction for the Company under the Listing Rules and the acquisition was completed on 11 February 2010, whereupon Gofar became a wholly-owned subsidiary of the Company.

On 18 December 2009, Ocean Path Limited, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Golden Concord Group Limited ("Golden Concord") for the acquisition of the entire equity interest in Ocean Jade. Ocean Jade has entered into an agreement on 1 December 2009 with Waibert, the holding company of which is Guangdong Province Navigation Holdings Co. Ltd., a key provincial government-owned enterprise, to establish the JV Company for carrying out shipment business. This acquisition constituted a major and connected transaction for the Company under the Listing Rules, details of which have been set out in the Company's circular dated 30 April 2010. The acquisition was completed on 19 May 2010 and Ocean Jade became an indirect wholly-owned subsidiary of the Company.

Significant Investments and Disposals

From 2 February 2010 to 17 February 2010, Bright Master Investments Limited ("Bright Master"), a wholly-owned subsidiary of the Company, acquired a total of 9,000,000 shares in Tack Hsin Holdings Limited, the shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in the open market at a total consideration of HK$20,793,040 (excluding stamp duty and related expenses). This acquisition constituted a discloseable transaction for the Company under the Listing Rules, details of which were set out in the Company's announcement dated 18 February 2010.

On 8 January 2010 and 11 January 2010, Bright Master disposed a total of 5,000,000 shares in China Agrotech Holdings Limited, the shares of which are listed on the main board of the Stock Exchange, in the open market at a total consideration of HK$5,619,060 (excluding stamp duty and related expenses). This disposal constituted a discloseable transaction for the Company under the Listing Rules, the details of which were set out in the Company's announcement dated 13 January 2010. The net proceeds from this disposal of approximately HK$5,599,000 were used as general working capital of the Group.

Litigation

A summary of litigation between the Company and Mr. Chan Tat Chee ("Mr. Chan"), a former director of the Company is set out below:

(a) On 6 January 2009, the Company sued against Mr. Chan for the return of a sum of HK$3,000,000. Mr. Chan defended the suit and counterclaimed the Company for a total sum of HK$17,046,206. The case was adjourned pending the disposal of the case referred to in note (c) below.

(b) On 9 March 2009, Mr. Chan claimed against the Company for a sum of HK$1,500,000, being his loan advanced to the Company and the Company defended the suit. The case was adjourned pending the disposal of the case referred to in note (c) below.

(c) On 27 March 2009, the Company issued a writ of summons against Mr. Chan to claim against him for a total sum of HK$25,183,600, being funds Mr. Chan admitted to have been stolen and/or misappropriated by him, either personally or conspired with others, from the Company. The Company took out two interlocutory applications to enter judgment against Mr. Chan summarily. By a written decision handed down by the High Court of the Hong Kong Special Administrative Region, Court of First Instance on 19 January 2010, judgment was awarded in favour of the Company and Mr. Chan shall pay to the Company the claimed sum of HK$25,183,600 together with the costs and interest thereon (the "Judgment"). Mr. Chan sought to apply for leave to appeal against the Judgment, but his application was dismissed by the Court of Appeal of High Court of Hong Kong Special Administrative Region. The Company is now pursuing enforcement of the Judgment.

The Directors are of the view that the above outstanding litigation cases will not have any material impact on the financial statements.

Prospects

The Group further expanded its railway operations business through its acquisition of the remaining 30% equity interest in Gofar, which was completed on 11 February 2010. Gofar, through its three indirectly and non-wholly owned PRC subsidiaries (collectively the "Gofar Group") , has participated in the railway projects of Zunxiao Railway. Zunxiao Railway is a single-track railway with 12 stations, and will pass through an important iron mining area which is one of the three major metals mining areas in the PRC where a number of steel and mineral production corporations in the PRC have interests. Each of Gofar's PRC subsidiaries has been approved to construct one part of the Zunxiao Railway, and is eligible to apply for the container and self-owned rail wagon chartering services.

As the Zunxiao Railway is still in the construction stage, no turnover has been recognized by the Gofar Group during the period under review. It is expected that the entire Zunxiao Railway will commence operation at the end of year 2010.

The acquisition of Ocean Jade allows the Group to further diversify its business into the dry bulk shipping industry. Ocean Jade currently owns the JV Company which is held as to 50% by Ocean Jade and as to 50% by Waibert. Waibert is wholly-owned by 廣東省珠江海運有限公司 (GNG Ocean Shipping Co., Ltd#) ("GNG Ocean"),a state-owned enterprise, which is principally engaged in ship management, dry bulk carrier chartering and operation. GNG Ocean is in turn a wholly-owned subsidiary of Guangdong Province Navigation Holdings Company Limited, one of the key provincial government-owned enterprises. It is believed that the operation of the shipping business of the JV Group would benefit from the strong background of Waibert's financial resources, business know-how, shipping expertise and well-established connections with relevant authorities especially ports authorities in the PRC. As Golden Concord has guaranteed that the net profit after tax of Ocean Jade shall not be less than HK$20,000,000 for the first 12 months after the commencement of commercial operation of the last of the 4 vessels acquired by the JV Group, it is expected that the acquisition of Ocean Jade will make positive contribution to the Group in the near future.

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 so that the Group's profitability and its shareholders' value can be enhanced.

Employee and Remuneration Policy

As at 30 June 2010, the Group had 313 (31 December 2009: 276) full-time employees, 283 of which were based in the PRC. Staff costs of the Group for the period under review, including directors' remuneration, were approximately HK$15,933,000 (31 December 2009: approximately HK$22,072,000).

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The Group determines the remuneration and compensation payable to its staff based on their duties, work experience and the prevailing market practices. Apart from basic remuneration, share options may be granted to eligible employees by reference to the performance of the Group and that of the individual employees. The Group also participated in an approved Mandatory Provident Fund scheme for its Hong Kong employees and made contributions to the various social insurance funds for its PRC employees.

Disclosure of Interests

Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures

As at 30 June 2010, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Name of Director	Capacity	Number of Shares held	Approximate percentage of shareholding
Mr. Liang Jun	Beneficial owner	2,000,000	0.02%

Save as disclosed above, as at 30 June 2010, as far as the Board was aware, none of the Directors had any interest or short position 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) 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, or pursuant to Section 352 of the SFO to be entered in the register of the Company or pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

As at 30 June 2010, so far as is known to the Board, the following persons (other than a Director) had interests in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity	Number of Shares and underlying Shares held	Approximate percentage of shareholding
Mr. Ko Fong ("Mr. Ko")	Interest of controlled corporations	4,552,970,325 (Note 1)	35.41%
Mr. Zhu Gongshan ("Mr. Zhu")	Beneficiary of a discretionary trust & interest of controlled corporations	2,137,450,000 (Note 2)	16.62%
Credit Suisse Trust Limited	Trustee	2,000,000,000 (Note 3)	15.56%

Notes:

(1) According to the individual substantial shareholder notice filed by Mr. Ko on 12 February 2010, Mr. Ko was deemed to be interested in 4,552,970,325 Shares through his interests in the following corporations which are 100% owned by him:

(i) 295,000,000 Shares held by Delight Assets Management Limited; and

(ii) 4,257,970,325 Shares held by King Castle Enterprises Limited;

(2) According to the individual substantial shareholder notice filed by Mr. Zhu on 20 May 2010, Mr. Zhu was deemed to be interested in 2,137,450,000 Shares that comprised (i) 2,000,000,000 Shares indirectly held by APEF (as described in Note 3 below), and (ii) 137,450,000 Shares directly held by Profit Act Limited, which is 100% controlled by Mr. Zhu indirectly.

(3) According to the corporate substantial shareholder notice filed by Credit Suisse Trust Limited ("CST") on 20 May 2010, CST was deemed to be interested in 2,000,000,000 Shares by virtue of its capacity as the trustee of Asia Pacific Energy Fund ("APEF"). APEF is a discretionary trust managed by CST, of which Mr. Zhu (a founder of APEF) and his family are beneficiaries. Out of this 2,000,000,000 Shares, 1,000,000,000 Shares were beneficially held by Fast Sky Holdings Limited which is 100% directly controlled by Golden Concord Group Limited ("Golden Concord") and 100% indirectly controlled by Asia Pacific Energy Holdings Limited, Asia Pacific Energy Fund Limited and APEF.

The balance of 1,000,000,000 Shares are consideration Shares which may be issued (in whole or in part as appropriate) to Golden Concord or its nominee pursuant to an agreement dated 18 December 2009 (as amended by supplemental agreements on 24 December 2009 and 28 April 2010) in relation to the acquisition of the entire equity interests in Ocean Jade Investments Limited (collectively, the "Agreements"). Details of the Agreements have been set out the Company's circular dated 30 April 2010 (the "Circular"). As disclosed in the Circular, the allotment and issue of these 1,000,000,000 Shares is subject to the achievement of the profit guarantee as contained in the Agreements.

Save as disclosed above, as at 30 June 2010, the Company had not been notified of any other person (other than the Directors whose interests are set out in the section headed "Directors' Interest And Short Positions In Shares, Underlying Shares And Debentures" above) who had an interest or short position in the shares or underlying shares of the Company which was required to be recorded in the register required to be kept under Section 336 of the SFO.

Share Options

2002 Option Scheme

On 27 May 2002, a share option scheme (the "2002 Option Scheme") was adopted by the Company. The purpose of the 2002 Option Scheme was to enable the Group to grant options to selected participants as incentive or reward for their contributions to the Group. The participants included (i) any eligible employee; (ii) any supplier of goods or services to any member of the Group or any entity in which any member of the Group held any interest ("Invested Entity"); (iii) any customer of the Group or any Invested Entity; (iv) any person or entity that provided research, development or other technological support to the Group or any Invested Entity; (v) any shareholder or any member of the Group or any Invested Entity; and (vi) any company wholly owned by any participant. The 2002 Option Scheme was to remain in force for a period commencing on 27 May 2002 and expiring at the close of business on the business day preceding the tenth anniversary.

The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Option Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on which the 2002 Option Scheme was adopted, without prior approval from the Company's shareholders. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period up to and including the date of grant of options shall not exceed 1% of the shares in issue.

The subscription price of any options granted will be determined by the Directors, which shall not be less than the higher of the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of option or the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five days immediately preceding the date of grant of the options. Options may generally be exercised in whole or part at any time during the period commencing on the first business day from the date of grant of the options and expiring on the close of business on the last day of such period as determined by the Directors and notified to the grantee (in any event such period must not be more than 10 years from the date of grant of the options).

The following table sets out the movements in the Company's share options under the 2002 Option Scheme during the period under review:

Date of grant of share options	Exercise period of share options	Exercise price of share options	As at 1.1.2010	Granted during the period	Exercise during the period	Lapsed during the period	As at 30.06.2010	Market value per share immediately preceding the grant date of share options	Market value per share immediately preceding the exercise date of share options
Employees — In aggregate									
26.05.2005	26.05.2005 to 25.05.2015	0.69	700,000	–	–	–	700,000	0.68	–
03.08.2005	03.08.2005 to 02.08.2015	0.688	500,000	–	–	–	500,000	0.66	–

Note: The share price of the Company disclosed as at the date of the grant of the share options was the closing price as quoted on the Stock Exchange on the trading day immediately prior to the date of the grant of the share options. The share price of the Company disclosed at the date of the exercise of the share options was the weighted average closing price of the Shares immediately before the date on which the share options with the disclosure category were exercised.

No option under the 2002 Option Scheme was cancelled during the period under review.

As at the date of this report, the 2002 Option Scheme had already been terminated with the passing of an ordinary resolution at the extraordinary general meeting of the Company held on 20 August 2008. The outstanding options were exercisable in accordance with the terms of the 2002 Option Scheme.

2008 Option Scheme

On 20 August 2008, a new share option scheme (the "2008 Option Scheme") was adopted by the Company. The purpose of the 2008 Option Scheme was to attract, retain and motivate talented participants to strive for future development and expansion of the Group. The participants are as follows:

(i) any full-time employee and director (including non-executive director and independent non-executive director) of the Group; and any part time employee with weekly working hours of ten hours and above of the Group (collectively, "Employee");

(ii) any advisor or consultant to the Group; any provider of goods and/or services to the Group; or any other person who, at the sole determination of the Board, has contributed to the Group (the assessment criterion of which are (a) such person's contribution to the development and performance of the Group; (b) the quality of work performed by such person for the Group; and (c) the initiative and commitment of such person in performing his or her duties; and (d) the length of service or contribution of such person to the Group) (collectively, "Business Associate"); and

(iii) the trustee of any trust (whether family, discretionary or otherwise) whose beneficiaries or objects include any Employee or Business Associate of the Group.

The 2008 Option Scheme is valid and effective for a period of ten years commencing on the date of adoption.

The total number of shares which may be issued upon exercise of all options to be granted under the 2008 Option Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on which the 2008 Option Scheme was adopted, without prior approval from the Company's shareholders. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period shall not exceed 1% of the shares in issue.

The subscription price will be determined by the directors, which shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of options; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five days immediately preceding the date of grant of option; or (iii) the nominal value of a share.

Options may generally be exercised in whole or part at any time during the period commencing on the first business day from the date of grant of the options and expiring on the close of business on the last day of such period as determined by the directors and notified to the grantee (in any event such period must not be more than 10 years from the date of grant of the options) subject to any restrictions as may be imposed on the exercise of an option during the period in which an option may be exercised.

For the six-month period under review, no share option was granted under the 2008 Option Scheme.

Corporate Governance

It is one of the continuing commitments of the Board and of the management of the Company to maintain high standards of corporate governance. The Company has adopted and applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules. The Company considers that effective corporate governance makes significant contribution to corporate success and enhancement of shareholder value.

Throughout the six-month period ended 30 June 2010, the Company has complied with the CG Code save as specified and explained below:

Code Provision A.2.1

Under A.2.1, the roles of the chairman and the chief executive officer ("CEO") should be separate and should not be performed by the same individual. The post of CEO has remained vacant since 30 March 2009. The duties of CEO were performed by the executive Directors of the Company ("EDs") as there exists a clear division of responsibilities. The Board considered that the vacancy of the CEO position did not have any material impact on the operations of the Group. However, the Board will continue reviewing the current structure of the Board from time to time. If a candidate with suitable knowledge, skill and experience is identified, the Company will make appointment to fill the post of CEO as appropriate.

Code Provision A.4.1

Under A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. In June 2010, a service agreement was entered into by the Company with each of the three independent non-executive Directors of the Company ("INEDs") for a period of three years. Terms of the appointment of two of the non-executive Directors of the Company ("NEDs") have not been fixed. Nevertheless, all the Directors (including EDs, NEDs and INEDs) are subject to retirement by rotation and re-election pursuant to the articles of association of the Company (the "Articles"). According to the Articles, at each annual general meeting, one third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

Model Code of Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by Directors.

Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the Model Code throughout the period under review.

Audit Committee

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules. The main purpose of the Audit Committee is to review and provide supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three INEDs.

During the period under review, the Audit Committee performed its duties according to its written terms of reference which comply with Code C.3.3 of the CG Code.

The unaudited consolidated results of the Group for the six months ended 30 June 2010 have been reviewed by the Audit Committee.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the period under review .

Condensed Consolidated Statement of Comprehensive Income

	Notes	For the six months ended 30 June 2010 HK$'000 (Unaudited)	2009 HK$'000 (Unaudited)
Turnover	3	**69,182**	54,566
Other income and gains	4	**17,360**	5,111
Fuel costs		**(34,465)**	(27,397)
Depreciation and amortisation		**(11,259)**	(10,256)
Staff costs		**(15,933)**	(10,119)
Change in fair value of trading securities		**(40,821)**	14,886
Change in fair value of contingent consideration		**2,700**	—
Change in fair value of the derivative component of convertible bonds		**—**	(55,367)
Concession intangible assets maintenance provision		**(3,416)**	(2,980)
Share of profit of an associate		**6,899**	—
Other operating expenses		**(24,965)**	(13,757)
Finance costs	6	**(7,739)**	(9,114)
Loss before income tax	7	**(42,457)**	(54,427)
Income tax expense	8	**—**	(2,456)
Loss for the period		**(42,457)**	(56,883)
Other comprehensive income:			
Exchange difference arising on translation of financial statements of foreign operations		**5,428**	(81)
Total comprehensive income for the period		**(37,029)**	(56,964)

Condensed Consolidated Statement of Comprehensive Income (Continued)

	Notes	For the six months ended 30 June 2010 HK$'000 (Unaudited)	2009 HK$'000 (Unaudited)
Loss for the period attributable to:			
Owners of the Company		**(40,451)**	(56,692)
Non-controlling interests		**(2,006)**	(191)
		(42,457)	(56,883)
Total comprehensive income for the period attributable to:			
Owners of the Company		**(36,699)**	(56,769)
Non-controlling interests		**(330)**	(195)
		(37,029)	(56,964)
Loss per share — basic and diluted			
(HK cents per share)	9	**(0.33)**	(0.70)

Condensed Consolidated Statement of Financial Position

	Notes	At 30 June 2010 HK$'000 (Unaudited)	At 31 December 2009 HK$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**11,796**	10,058
Concession intangible assets		**355,877**	363,204
Land use rights		**4,563**	4,572
Investment in associate		**6,899**	—
Intangible assets		**126,900**	—
Construction in progress		**950,085**	816,116
Goodwill		**27,511**	27,312
Pledged bank deposits		**—**	17,070
		1,483,631	1,238,332
Current assets			
Inventories		**3,118**	1,618
Trade and other receivables	11	**24,224**	32,515
Trading securities	12	**158,749**	130,994
Loan to an associate		**37,000**	37,000
Cash and cash equivalents		**126,130**	62,691
		349,221	264,818
Current liabilities			
Trade and other payables	13	**165,767**	154,449
Bank loans		**34,004**	34,140
Amount due to related companies		**—**	80
Amount due to shareholder		**—**	441
Amount due to minority equity owners of subsidiaries		**182,011**	259,230
Tax payable		**7,309**	7,309
		389,091	455,649
Net current liabilities		**(39,870)**	(190,831)

Condensed Consolidated Statement of Financial Position (Continued)

	Notes	At 30 June 2010 HK$'000 (Unaudited)	At 31 December 2009 HK$'000 (Audited)
Non-current liabilities			
Bank loans		**248,169**	256,050
Contingent consideration		**124,200**	—
Provision for maintenance of concession intangible assets		**6,338**	3,436
Convertible bonds		**—**	19,572
		378,707	279,058
Net assets		**1,065,054**	768,443
EQUITY			
Share capital	14	**128,570**	102,570
Reserves		**703,617**	436,056
Equity attributable to owners of the Company		**832,187**	538,626
Non-controlling interests		**232,867**	229,817
Total equity		**1,065,054**	768,443

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	Attributable to owners of the Company								
	Share capital HK$'000 (Note 14)	**Share premium** HK$'000	**Capital Reserve** HK$'000	**Share option reserve** HK$'000	**Translation reserve** HK$'000	**Accu-mulated losses** HK$'000	**Total** HK$'000	**Non-controlling interests** HK$'000	**Total equity** HK$'000
At 1 January 2009 (Audited)	81,570	739,908	4,190	5,742	14,982	(493,135)	353,257	3,022	356,279
Total comprehensive income for the period	–	–	–	–	(77)	(56,692)	(56,769)	(195)	(56,964)
Recognition of share option expenses	–	–	–	4	–	–	4	–	4
At 30 June 2009 (Unaudited)	81,570	739,908	4,190	5,746	14,905	(549,827)	296,492	2,827	299,319
At 1 January 2010 (Audited)	**102,570**	**914,679**	**4,190**	**5,746**	**15,459**	**(504,018)**	**538,626**	**229,817**	**768,443**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**3,752**	**(40,451)**	**(36,699)**	**(330)**	**(37,029)**
Conversion of convertible bonds	**1,000**	**18,658**	**–**	**–**	**–**	**–**	**19,658**	**–**	**19,658**
Top-up placing	**15,000**	**214,867**	**–**	**–**	**–**	**–**	**229,867**	**–**	**229,867**
Capital injection of non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,380**	**3,380**
Issue of shares for acquisition of non-controlling interests	**10,000**	**122,985**	**–**	**–**	**–**	**(52,250)**	**80,735**	**–**	**80,735**
At 30 June 2010 (Unaudited)	**128,570**	**1,271,189**	**4,190**	**5,746**	**19,211**	**(596,719)**	**832,187**	**232,867**	**1,065,054**

Condensed Consolidated Statement of Cash Flows

	For the six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	**(21,612)**	(73,951)
Net cash used in investing activities	**(191,055)**	(29,794)
Net cash generated from financing activities	**278,882**	—
Net increase/(decrease) in cash and cash equivalents	**66,215**	(103,745)
Cash and cash equivalents at 1 January	**62,691**	254,092
Effect of foreign exchange rate changes	**(2,776)**	(14)
Cash and cash equivalents at 30 June representing bank balances and cash	**126,130**	150,333

Notes to the Condensed Consolidated Financial Statements

1. Basis of Preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd. (the “Listing Rules”) and the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

2. Adoption of New and revised Hong Kong Financial Reporting Standards

The accounting policies and methods of computation adopted in the 2009 annual financial statements have been applied consistently to this interim financial report, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements.

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2010. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRSs”); Hong Kong Accounting Standards (“HKASs”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s financial statements.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. Turnover

	For the six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Waste incineration power generation income	**53,277**	44,230
Waste handling income	**15,905**	10,336
	69,182	54,566

4. Other Income and Gains

	For the six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Gain on disposal of trading securities	**12,230**	—
VAT tax refund on waste incineration power generation income	**2,639**	4,845
Bank interest income	**1,718**	107
Others	**733**	159
	17,360	5,111

5. Segment Information

The Group has two reportable segments as at 30 June 2010 (30 June 2009: one). The segments are managed separately as each business offers different products and services and requires different business strategies. The following are the Group's reportable segments:

— Waste incineration power generation business

— Railway construction and operations

The Group principally has one reportable segment as at 30 June 2009, which is waste incineration power generation in the PRC.

	For the six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Segment revenue from external customers		
Waste incineration power generation business	**69,182**	54,566
Railway construction and operations	**—**	—
	69,182	54,566
Segment profit/(loss)		
Waste incineration power generation business	**4,698**	(1,911)
Railway construction and operations	**(3,939)**	—
	759	(1,911)
Share of profit of an associate	**6,899**	—
Unallocated corporate income and expenses (net)	**(50,115)**	(52,516)
Loss before income tax	**(42,457)**	(54,427)

6. Finance Costs

	For the six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interest on bank loans	**13,275**	8,181
Bank overdraft interest	**2**	—
Imputed interest on convertible bonds	**114**	933
Total finance costs	**13,391**	9,114
Less: Amount capitalised in construction in progress	**(5,652)**	—
	7,739	9,114

7. Loss before Income Tax

	For the six months ended 30 June	
	2010	2009
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Loss for the period is arrived at after charging/(crediting):		
Amortisation of concession intangible assets	**9,554**	9,535
Depreciation of property, plant and equipment	**1,664**	680
Amortisation of land use rights	**41**	41
	11,259	10,256
Staff costs, including directors' remuneration		
— Salaries, wages and other benefits	**15,204**	9,791
— Equity-settled share-based payments	**—**	4
— Contributions to defined contribution retirement scheme	**729**	324
	15,933	10,119
Auditor's remuneration	**143**	240
Loss on disposal of property, plant and equipment	**—**	143
Operating lease rentals in respect of land and buildings	**1,850**	1,067
Operating lease rentals in respect of equipment	**—**	109
Net exchange (gains)/losses	**(192)**	133

8. Income Tax

Hong Kong profits tax is calculated at 16.5% (2009: 16.5%) on the estimated assessable profit for the period. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

No provision for PRC enterprise income tax has been made in the financial statements as the companies operating in the PRC had no assessable profit for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

9. Loss per Share

The calculation of the basic loss per share is based on the loss for the period attributable to owners of the Company of HK$40,451,000 (six months ended 30 June 2009: HK$56,692,000) and on the weighted average number of ordinary shares of 12,387,413,840 (six months ended 30 June 2009: 8,157,027,100 ordinary shares).

Diluted loss per share was not presented for the six months ended 30 June 2010 and 2009 as the potential ordinary shares are anti-dilutive.

10. Dividend

No dividend has been paid or declared by the Company during the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

The directors do not recommend the payment of any dividends in respect of the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

11. Trade and Other Receivables

	At 30 June 2010 HK$'000 (Unaudited)	At 31 December 2009 HK$'000 (Audited)
Trade receivables		
— 0 to 30 days	**13,711**	16,853
— Over 30 days	**1,347**	—
	15,058	16,853
Other receivables, net	**9,166**	15,662
	24,224	32,515

12. Trading Securities

	At 30 June 2010 HK$'000 (Unaudited)	At 31 December 2009 HK$'000 (Audited)
Hong Kong listed equity securities at market value	**158,749**	130,994

13. Trade and Other Payables

	At 30 June 2010 HK$'000 (Unaudited)	At 31 December 2009 HK$'000 (Audited)
Trade payables — current and up to 30 days	**13,397**	21,517
Construction cost payable	**99,032**	97,287
Other payables	**53,338**	35,645
	165,767	154,449

14. Share Capital

	Number of ordinary shares	Nominal value HK$'000
Ordinary shares of HK$0.01 each		
Authorised ordinary shares:		
At 30 June 2010 and 31 December 2009	120,000,000,000	1,200,000
Authorised preference shares class A:		
At 30 June 2010 and 31 December 2009	10,000,000,000	100,000
Authorised preference shares class B:		
At 30 June 2010 and 31 December 2009	10,000,000,000	100,000
Issued and fully paid		
At 1 January 2009	8,157,027,100	81,570
New issue and allotment of shares	1,200,000,000	12,000
Issued on the conversion of the convertible bonds	900,000,000	9,000
At 31 December 2009	10,257,027,100	102,570
Issue of shares for acquisition of non-controlling interest	1,000,000,000	10,000
Issued on the conversion of the convertible bonds	100,000,000	1,000
Top-up placing	1,500,000,000	15,000
At 30 June 2010	12,857,027,100	128,570

15. Acquisition of a Subsidiary

On 19 May 2010, the Group had completed the acquisition of 100% equity interest in Ocean Jade Investments Limited ("Ocean Jade") from Golden Concord Group Limited ("Golden Concord" or "the Vendor"), a company incorporated in Hong Kong which is beneficially owned by a discretionary trust of which Mr. Zhu, a director of a subsidiary of the Company, and his family are beneficiaries. The acquisition is to be satisfied by the issue of 1,000,000,000 consideration shares to the Vendor, subject to the adjustment as explained below.

Pursuant to the supplemental agreement, the Vendor has undertaken the net profit after tax of Ocean Jade (as shown in the audited consolidated financial statements of Ocean Jade to be prepared in accordance with the HKFRSs for the first 12 months after the commencement of commercial operation of the last of the four vessels acquired in accordance with the joint venture agreement, in which Ocean Jade is a party) shall not be less than HK$20,000,000. In the event the guaranteed profit is not met, the number of consideration shares that Golden Concord is entitled shall be reduced pro-rata to the actual shortfall.

Ocean Jade and its joint-venture company had not yet commenced business and hold primarily 50% interest in the Contract of Affreightment (運輸合同) dated 30 March 2010 ("the COA") in relation to the provision of coal shipment services by the joint-venture company. As such, the directors of the Company are of the view that the acquisition of 100% interest in Ocean Jade is a purchase of intangible asset, which does not constitute a business combination for accounting purposes.

15. Acquisition of a Subsidiary *(continued)*

Since the transaction is considered as a purchase of asset and the consideration will be settled by the Company's equity instruments, the acquisition is an equity-settled share-based payment transaction in accordance with HKFRS 2 "Share-based Payment"; accordingly the fair value of equity instruments should be recognised based on the fair value of the assets acquired. However, in the opinion of the directors, the fair value of the sole asset acquired, the COA, cannot be estimated reliably, therefore, following HKFRS 2 , the fair value of the COA was determined by reference to the fair value of the consideration shares to be issued to the Vendor upon completion.

At the date of completion, the fair value of the Company's shares is HK$0.141 each and based on the directors' best estimate and weighted probability analysis, the fair value of consideration shares expected to be issuable is estimated to be HK$126,900,000 at the date of completion. The Company's obligation to issue a variable number of shares is accounted for as a liability and carried at fair value at the end of each reporting period, with resulting gain or loss recognised in profit or loss.

16. Operating Lease Commitments

The Group leases certain of its office premises and staff quarters under operating lease arrangements. The leases typically run for lease term of one to three years, with an option to renew the lease at which time all terms are renegotiated. None of the lease includes contingent rentals.

17. Related Party Transactions

On 11 February 2010, the Group had completed the acquisition of the remaining 30% equity interest in Gofar Holdings Limited ("Gofar") from a connected party of which the Group had equity interest of 70% before this acquisition. Gofar became the wholly-owned subsidiary of the Company after the acquisition. This acquisition was satisfied by issuing 1,000,000,000 consideration shares. Details of the acquisition have been set out in the Company's circular dated 23 November 2010.

On 19 May 2010, the Group had completed the acquisition of 100% equity interest in Ocean Jade from a connected party as set out in note 15.

18. Approval of the Condensed Consolidated Financial Statements

The condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 24 August 2010.