



CHINA PUBLIC PROCUREMENT LIMITED

中國公共採購有限公司

(incorporated in Bermuda with limited liability)

(Stock code: 1094)

Interim Report 2010

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the period under review, the revenue of the company has increased significantly from HKD4.8 million to approximately HKD13 million, representing an year-on-year increase of 171%.

For the six months ended 30 June 2010, the Group recorded a loss of approximately HKD63 million (six months ended 2009: approximately HKD49 million) increased by approximately HKD14 million mainly due to the increase of the equity settled share based payment expenses arisen from the grants of share options by approximately HKD21 million to HKD44 million (six months ended 2009: approximately HKD23 million). The details are contained in the financial statements of this report. The loss attributable to Shareholders was HKD1.93 cent per share (six months ended 2009: HKD1.87 cent per share). The increase was mainly due to the increase in the administrative and operating expenses and the equity settled share-based payment expenses.

The Company is steadily developing its procurement business and has shown considerable improvement compared with last year evidenced by the increase in revenue. As the market of natural resources in China is enormous and can be very lucrative, the Company will focus its business on this sector to strive for the best interest for the Company's shareholders.

Prospects

The Board is optimistic about the future of the public procurement business. The industry is just in its beginning stage in China and the market potential of which is huge. According to the executive meeting of China's State Council in March, the government would further support private investment. It would encourage private investment in sectors currently state controlled, such as infrastructure for transport, telecommunications and energy, public utility, etc. Benefited by various incentives and the PRC government policy, the prospect of public procurement business is expected to be promising.

MANAGEMENT DISCUSSION AND ANALYSIS

Prospects *(Continued)*

Despite the global economy has gone out of the trough of the economic cycle, it still remains weak which is evidenced by the sluggish improvement in economic growth and unemployment rate. With the PRC government's determination to maintain an annual GDP growth rate of 8%, it is expected that the domestic economic growth will be mainly contributed by domestic demand which will stay strong in the coming future. This provides great market potential for the public procurement business.

Liquidity and Financial Resources

On 11 February 2010, a fund raising event took place that the Company has entered into a subscription agreement ("Subscription Agreement") with Standard Bank Plc as the subscriber (the "Subscriber") where the Company agreed to issue and the Subscriber agreed to subscribe for HK\$40,000,000 worth one year equity linked debt instruments ("ELDs"). According to the Subscription Agreement, the Company will issue not more than 48,543,689 new shares ("Conversion Shares") of the Company to holders of the ELDs upon their request to convert, subject to other conditions as disclosed in the announcement dated 12 February 2010. During the period ended 30 June 2010, a net proceeds of approximately HKD38,000,000 were raised while all ELDs had been fully converted and a total of 42,810,107 new Shares were issued and allotted to the Subscriber.

As at 30 June 2010, the Group maintained cash, fixed deposits and bank balances of approximately HKD61 million (31 December 2009: HKD30 million) and had no bank borrowings (31 December 2009: nil).

As at 30 June 2010, the Group's working capital (net current assets) and current ratio were approximately HKD75 million (31 December 2009: HKD27 million) and 3.65 respectively (31 December 2009: 2.0). The increase in current ratio is due to the substantial increase in cash and bank balances. The existing available cash and bank balances are considered sufficient for the Group's operations.

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of Assets and Contingent Liabilities

As at 30 June 2010, there were no assets pledged by the Group (31 December 2009: nil). As at 30 June 2010, the Group had no material contingent liabilities (31 December 2009: nil).

Foreign Exchange Exposure

The Group has limited exposure to fluctuation in foreign currencies as most of its transactions are denominated in HK dollars, US dollars and Renminbi. Exchange rates between these currencies with Hong Kong dollars were relatively stable during the period under review. The Group has not entered into any foreign currency forward exchange contract for the purpose of hedging against foreign exchange risks involved in the Group's operations.

Staff and Remuneration Policy

The Group determines staff remuneration in accordance with market terms, individual qualifications and performance. Staff recruitment and promotion is based on individuals' merit and their development potential for the positions offered. As at 30 June 2010, the Group had approximately 35 employees. The Company maintains a share option scheme (the "Scheme"), pursuant to which share options are granted to selected directors or employees of the Group, with a view to attract and retain quality personnel and to provide them with incentive to contribute to the business and operation of the Group. During the six month period, a total of 96,700,000 share options were granted, 25,000,000 share options were cancelled and 53,940,000 were exercised.

MANAGEMENT DISCUSSION AND ANALYSIS

Share Option Scheme

Under the share option scheme adopted by the Company on 12 June 2002 (the "Share Option Scheme"), the Directors may, at their discretion, invite any eligible participants to take up options to subscribe for shares in the capital of the Company. The Share Option Scheme is effective for the period from 12 June 2002 to 11 June 2012. The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 10% of the number of shares in issue at the date of approval of the Share Option Scheme (the "General Scheme Limit") provided that, inter-alia, the Company may seek approval of the Shareholders at a general meeting to refresh the General Scheme Limit. The maximum number of shares in respect of which options may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme may not, subject to shareholders' approval, exceed 30% of the share capital of the Company in issued from time to time.

On 26 March 2009, a total of 172,200,000 share options were granted to the directors of the Company and eligible participants. As at 30 June 2010, 52,200,000 share options have been exercised and 40,000,000 share options have been cancelled.

On 14 August 2009, a total of 10,600,000 share options were granted to the directors of the Company and eligible participants. As at 30 June 2010, no share options have been exercised and 5,200,000 share options have been cancelled.

On 9 November 2009, a total of 11,100,000 share options were granted to the directors of the Company and eligible participants. As at 30 June 2010, 500,000 share options have been exercised and none were cancelled.

MANAGEMENT DISCUSSION AND ANALYSIS

Share Option Scheme *(Continued)*

On 5 January 2010, a total of 6,700,000 share options were granted to the directors of the Company and eligible participants pursuant to the Share Option Scheme. Of which, Mr. Chan Tze See, Kevin and Mr. Chen Bojie, the independent non-executive directors, were each granted 1,000,000 share options. The share options were granted at a cash consideration of HK\$1.00 per grantee and entitled the grantees to subscribe for ordinary shares (of nominal value of HK\$0.01 each) of the Company at an exercise price of HK\$0.78 per share, determined with reference to the then market prices as required under Rule 17.03(9) of the Listing Rules. The share options may be exercisable during the period from 5 January 2010 to 4 January 2013. As at 30 June 2010, 3,100,000 of these share options have been exercised none were cancelled.

On 9 February 2010, a total of 60,000,000 shares options were further granted to other eligible participants pursuant to the Share Option Scheme. The share options were granted at a cash consideration of HK\$1 per grantee and entitled the grantees to subscribe for ordinary shares at an exercise price of HK\$1.07 per share, determined with reference to the then market prices as required under Rule 17.03(9) of the Listing Rules. The share options may be exercisable during the period from 9 February 2010 to 8 February 2013. As at 30 June 2010, none of these share options have been either exercised or cancelled.

On 4 May 2010, a total of 30,000,000 shares options were further granted to other eligible participants pursuant to the Share Option Scheme. The share options were granted at a cash consideration of HK\$1 per grantee and entitled the grantees to subscribe for ordinary shares at an exercise price of HK\$1.11 per share, determined with reference to the then market prices as required under Rule 17.03(9) of the Listing Rules. The share options may be exercisable during the period from 4 May 2010 to 3 May 2013. As at 30 June 2010, none of these share options have been either exercised or cancelled.

MANAGEMENT DISCUSSION AND ANALYSIS

DIRECTORS' INTERESTS IN THE SHARE CAPITAL

As at 30 June 2010, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Name of director	Number of shares or underlying shares held or short positions	Approximate percentage to the total issued shares of the Company (%)
Ho Wai Kong ¹	5,784,871,836(L)	174.44
Song Lianzhong ²	180,000,000(L)	5.42
Jiang Haoye ³	15,000,000(L)	0.45
Lu Xing ⁴	1,298,833,808(L)	39.16
Wu Xiaodong ⁵	10,000,000(L)	0.30
Zhang Guisheng ³	15,000,000(L)	0.45
Cheng Zhuo ⁶	3,000,000 (L)	0.09
Chan Tze See, Kevin ⁷	1,352,000 (L)	0.04
Chen Bojie ⁷	1,000,000 (L)	0.03
Wu Fred Fong ⁸	2,000,000(L)	0.06

L: Long Position

MANAGEMENT DISCUSSION AND ANALYSIS

DIRECTORS' INTERESTS IN THE SHARE CAPITAL *(Continued)*

Notes:

1. Mr. Ho Wai Kong ("Mr. Ho") is interested in 252,188,901 Shares, of which 236,888,901 Shares are held by Master Top Investments Limited ("Master Top"), 500,000 Shares are held by Similan Limited ("Similan"). Master Top is also entitled to 3,908,564,725 preferred Shares of the Company according to the sale and purchase agreement signed on 31 August 2008 if the public procurement business achieves net profit of not less than HK\$200,000,000 on or before the end of 2010. Both Master Top and Similan are wholly owned by Mr. Ho. Mr. Ho is also interested in 23,000,000 share options of the Company. Mr. Ho's spouse, Ms. Guo Binni, is interested in 29,348,000 Shares.
2. The interests represent 150,000,000 Shares and 30,000,000 share options granted to Mr. Song Lianzhong pursuant to the Share Option Scheme.
3. The interests represent 15,000,000 share options granted to Mr. Jiang Haoye and Mr. Zhang Guisheng respectively pursuant to the Share Option Scheme.
4. Mr. Lu Xing ("Mr. Lu") is interested in 79,102,980 Shares, of which 36,806,980 Shares are held by Mega Step Investments Limited ("Mega Step"), 32,000,000 Shares are held by Ascher Group Limited ("Ascher Group"). Mega Step is also entitled to a maximum of 1,184,730,828 preferred Shares of the Company according to the sale and purchase agreement signed on 31 August 2008 if the public procurement business achieves net profit of not less than HK\$200,000,000 on or before the end of 2010. Both Mega Step and Ascher Group are wholly owned by Mr. Lu. Mr. Lu is also interested in 35,000,000 share options of the Company.
5. The interest represents 5,000,000 Shares and 5,000,000 share options granted to Mr. Wu Xiaodong pursuant to the Share Option Scheme.
6. The interest represents 3,000,000 share options granted to Ms. Cheng Zhuo pursuant to the Share Option Scheme.
7. The interests represent 1,000,000 share options granted to Mr. Chan Tze See, Kevin ("Mr. Chan") and Mr. Chen Bojie respectively pursuant to the Share Option Scheme. Mr. Chan is also interested in 352,000 Shares.
8. The interest represents 2,000,000 share options granted to Mr. Wu Fred Fong pursuant to the Share Option Scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2010, according to the register of interests required to be kept by the Company under Section 336 of the SFO, the following persons, other than the directors or chief executives of the Company, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Capacity	Number of shares or underlying shares	Percentage of the issued share capital
Master Top Investments Limited ^{1,4} ("Master Top")	Corporate	4,145,453,626(L)	125.00%
Ho Wai Kong ("Mr. Ho")	Beneficial owner	5,784,871,836 (L)	174.44%
Mega Step Investments Limited ^{2, 4} ("Mega Step")	Corporate	1,221,537,808(L)	36.83%
Lu Xing ("Mr. Lu")	Beneficial owner	1,298,833,808(L)	39.16%
Top Access Overseas Limited ³ ("Top Access")	Corporate	1,173,781,274(L)	36.54%
Magical Power Investments Limited ^{3,4} ("Magical Power")	Corporate	1,254,537,273(L)	39.05%
Siu Fung ("Ms. Siu")	Beneficial owner	1,183,537,274(L)	36.84%

L: Long Position

MANAGEMENT DISCUSSION AND ANALYSIS

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Notes:

1. Master Top is a Company incorporated in the British Virgin Islands and is wholly owned by Mr. Ho. On 1 May 2010, Mr. Ho entered into an agreement with Favor Mind and Mr. Wang Dingbo, the sole shareholder of Favor Mind, where Mr. Ho agreed to purchase the interests of 1,601,118,210 preferred shares at HKD0.6 each that Favor Mind would have obtained if the said profit is made before the end of 2010.
2. Mega Step is a Company incorporated in the British Virgin Islands and is wholly owned by Mr. Lu.
3. Top Access and Magical Power are companies incorporated in the British Virgin Islands and are directly and indirectly wholly owned by Ms. Siu respectively.
4. According to the sale and purchase agreement signed on 31 August 2008, the Company will allot and issue preferred shares to the vendor of the public procurement business including Master Top, Mega Step, Favor Mind Holdings Limited (“Favor Mind”) and Magical Power if the acquired public procurement business achieved net profit of not less than HKD200,000,000 on or before the end of 2010. Given that the preferred shares are to be issued in full, Master Top will be entitled to 3,908,564,725 preferred shares, Mega Step will be entitled to 1,184,730,828 preferred shares, Favor Mind will be entitled to 1,601,118,210 preferred shares, Magical Power will be entitled to 1,122,715,687 preferred shares. The preferred shares are convertible to the Company’s ordinary shares at nominal value of HKD0.01 each provided that any conversion of which will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code. For details, please refer to the relevant circular dated 16 January 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

Purchase, Redemption or Sale of Listed Securities of the Company

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

CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance Practices

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Listing Rules during the period under review.

Audit Committee

The audit committee of the Company comprises three members namely, Mr. Chan Tze See, Kevin, Mr. Chen Bojie and Mr. Wu Fred Fong (chairman), the independent non-executive directors of the Company. The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed with the management in respect to the financial reporting matters, including review of the unaudited interim accounts of the Group for the period, and are of the opinion that such statements comply with the applicable accounting standards and the Listing Rules and that adequate disclosures have been made.

Remuneration Committee

The Remuneration Committee comprises three members namely Mr. Chan Tze See, Kevin, Mr. Chen Bojie and Mr. Wu Fred Fong (chairman), the independent non-executive directors of the Company. The Remuneration Committee is to review and determine the remuneration policy and other remuneration related matters of the Directors and the senior management of the Group.

CORPORATE GOVERNANCE

Code of Conduct for Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by the directors of the Company on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. The Company, having made specific enquiry of all directors, confirmed that all directors have complied with the required standard of dealings set out therein throughout the six months ended 30 June 2010.

On behalf of the Board

Ho Wai Kong

Chairman

Hong Kong, 27 August 2010

CONDENSED CONSOLIDATED INCOME STATEMENT*For the six months ended 30 June 2010*

	<i>Notes</i>	Six months ended 30 June	
		2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
Continuing operation			
Turnover	5	12,519	4,800
Cost of sales		(11,233)	(3,788)
Gross profit		1,286	1,012
Other income	5	725	12
Gain on disposal of property, plant and equipment		926	–
Administrative and other operating expenses		(22,111)	(13,271)
Equity settled share-based payment expense		(44,207)	(23,403)
Loss from operation		(63,381)	(35,650)
Finance costs		–	(18)
Loss before taxation	6	(63,381)	(35,668)
Taxation	7	–	–

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

	Notes	Six months ended 30 June	
		2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
Loss for the period from continuing operation		(63,381)	(35,668)
Discontinued operations			
Loss for the period from discontinued operations		–	(13,303)
Loss for the period		(63,381)	(48,971)
Attributable to:			
Equity shareholders of the Company		(63,112)	(49,088)
Non-controlling interests		(269)	117
		(63,381)	(48,971)
Loss per share attributable to ordinary equity shareholders of the Company			
From continuing and discontinued operations	8		
– Basic		(1.93)	(1.87)
– Diluted		(1.91)	(1.79)
From continuing operations	8		
– Basic		(1.93)	(1.36)
– Diluted		(1.91)	(1.30)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Notes	Six month ended 30 June	
		2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
Loss for the period		(63,381)	(48,971)
Other comprehensive income for the period			
Exchange differences arising on translation of foreign operations		475	(20)
Other comprehensive income for the period (net of tax)		475	(20)
Total comprehensive income for the period		(62,906)	(48,991)
Attributable to:			
Equity shareholders of the Company		(62,659)	(49,108)
Non-controlling interests		(247)	117
Total comprehensive income for the period		(62,906)	(48,991)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	Notes	30.6.2010 (unaudited) HK\$'000	31.12.2009 (audited) HK\$'000
Non-current assets			
Property, plant and equipment	10	10,222	10,414
Goodwill	17	353	–
Intangible assets		17,277	17,143
		27,852	27,557
Current assets			
Inventories		53	–
Trade and other receivables	11	41,888	24,278
Pledged deposit	12	3,600	3,600
Bank balances and cash		57,542	25,970
		103,083	53,848
Current liabilities			
Trade and other payables	13	23,652	23,875
Receipt in advance		4,587	2,500
		28,239	26,375
Net current assets		74,844	27,473
NET ASSETS		102,696	55,030
CAPITAL AND RESERVES			
Share capital	14	33,163	32,196
Reserves		66,822	20,278
		99,985	52,474
Non-controlling interests		2,711	2,556
		102,696	55,030

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 June 2010*

	Share Capital HK\$'000	Reserves HK\$'000	Non- controlling Interests HK\$'000	Total HK\$'000
Balance at 1 January 2009 (audited)	22,170	124,694	–	146,864
Loss for the period	–	(49,088)	117	(48,971)
Exchange differences arising on translation of foreign operations	–	(20)	–	(20)
Total comprehensive income for the period	–	(49,108)	117	(48,991)
Issue of shares	10,007	620,998	–	631,005
Exercise of warrants	–	390	–	390
Exercise of share option	–	27,681	–	27,681
Equity-settled share-based payments	–	23,403	–	23,403
Reserves released on disposal of subsidiaries	–	76	(117)	(41)
Disposal of available-for-sale investments	–	34,272	–	34,272
	10,007	706,820	(117)	716,710
Balance at 30 June 2009 (unaudited)	32,177	782,406	–	814,583

Details of reserves are set out in note 16 to the condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 June 2010*

	Share Capital HK\$'000	Reserves HK\$'000	Non- controlling Interests HK\$'000	Total HK\$'000
Balance at 1 January 2010 (audited)	32,196	20,278	2,556	55,030
Loss for the period	–	(63,112)	(269)	(63,381)
Exchange differences arising on translation of foreign operations	–	453	22	475
Total comprehensive income for the period	32,196	(62,659)	(247)	(62,906)
Exercise of share options	539	27,435	–	27,974
Exercise of convertible equity-linked debt instruments	428	37,963	–	38,391
Equity-settled share-based payments	–	44,207	–	44,207
Deemed acquisition of additional interest in a subsidiary	–	(402)	402	–
	967	109,203	402	110,572
Balance at 30 June 2010 (unaudited)	33,163	66,822	2,711	102,696

Details of reserves are set out in note 16 to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2010

	Six month ended 30 June	
	2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
Net cash used in operating activities	(35,162)	(38,197)
Net cash generated from/(used in) investing activities	62	(5,410)
Net cash generated from financing activities	66,365	28,621
Net increase/(decrease) in cash and cash equivalents	31,265	(14,986)
Cash and cash equivalents at beginning of period	25,970	39,660
Effect of foreign exchange rate changes	307	(19)
Cash and cash equivalents at end of period	57,542	24,655
Analysis of cash and cash equivalents of the end of the period		
Bank balances and cash	57,542	24,655

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

1. Review of the condensed consolidated financial statements

The condensed consolidated financial statements have been reviewed by the Audit Committee, not audited.

2. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 annual audited financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of the condensed consolidated financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

3. Changes in accounting policies

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the group's financial statements:

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRS issued in 2009
HKFRS 1 (Amendment)	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transaction
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HK(IFRIC) - Int 17	Distributions of Non-cash Assets to Owners

The adoption of these amendments to standards has no material financial effect on the Group's results and financial position for the current or prior periods.

4. Segment information

The Group has identified its operating segments based on the regular internal financial information reporting to the Group's senior management for its decisions about resources allocation and performance assessment. The directors concluded that there is no separate reporting segment apart from the public procurement services for the period. Senior management reviews and assesses the performance on the public procurement services based on the information available for purpose of allocating resources to the segment and assessing its performance.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

5. Turnover and other income

The principal activity of the Group is provision of procurement services to general public and government in PRC.

An analysis of the Group's revenue for the period is as follows:

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Turnover		
Public procurement	12,519	4,800
Other income		
Interest income	674	–
Sundry income	52	12
	725	12

6. Loss before taxation

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Loss before taxation from continuing operations has been arrived at after charging:		
Cost of inventories recognised as expense	11,233	3,788
Depreciation of property, plant and equipment	1,416	6
Exchange loss	51	7
Impairment of trade and other receivables	–	96
Operating lease rentals – office premises	3,086	1,734
Staff costs (including directors' remuneration)		
– Salaries and allowances	9,854	5,807
– Retirement scheme contributions	347	141
– Equity-settled share-based payment expenses	44,207	23,403

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

7. Taxation

No Hong Kong Profits Tax has been provided in the financial statements as the Group has no estimated assessable profits for both periods.

No PRC income tax has been provided as the Group has no estimate assessable profits for those subsidiaries established in the PRC for the period, as determined in accordance with the relevant income tax rules and regulations in the PRC (six months ended 30 June 2009: Nil).

8. LOSS PER SHARE

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Loss for the period from continuing operation	(63,112)	(35,668)
Loss for the period from discontinued operation	–	(13,420)
Loss for the period attributable to equity shareholders of the Company	(63,112)	(49,088)

The calculation of basic loss per share is based on the weighted average of 3,261,775,374 (six months ended 30 June 2009: weighted average of 2,630,198,593) ordinary shares in issue during the interim period

The calculation of diluted loss per share is based on the weighted average of 3,303,126,646 (six months ended 30 June 2009: weighted average of 2,738,988,491) ordinary shares outstanding during the period, adjusted for the effects of all dilutive potential shares.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

9. Interim dividend

The Board has resolved not to declare any interim dividends for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

10. Property, plant and equipment

During the six months ended 30 June 2010, the group acquired items of plant and equipment with a cost of HK\$2,768,000 (six months ended June 30 2009: HK\$6,625,000). Items of plant and machinery with a net book value of HK\$1,574,000 were disposed of during the six months ended 30 June 2010 (six months ended 30 June 2009: HK\$2,591,000), resulting in a gain on disposal of HK\$926,000 (six months ended 30 June 2009: loss of HK\$276,000)

11. Trade and other receivables

	30.6.2010 HK\$'000	31.12.2009 HK\$'000
Trade receivables	6,313	1,388
Prepayments and deposits	31,110	18,256
Other receivables	4,465	4,634
Total trade and other receivables	41,888	24,278

The following is an aged analysis of trade receivables at the end of reporting date:

	30.6.2010 HK\$'000	31.12.2009 HK\$'000
0-30 days	4,267	439
31-60 days	1,089	–
61-90 days	–	–
91-180 days	–	–
181-365 days	957	–
	6,313	439

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

12. Pledged deposit

As at 30 June 2010, the Group's fixed bank deposit amounting to HK\$3,600,000 (31 December 2009: HK\$3,600,000) was pledged as securities for the operating lease agreement of the Company.

13. Trade and other payables

	30.6.2010 HK\$'000	31.12.2009 HK\$'000
Trade payables	62	–
Accruals and other payables	23,590	23,875
	23,562	23,875

The following is an aged analysis of trade payables at the end of reporting date:

	30.06.2010 HK\$'000	31.12.2009 HK\$'000
0-30 days	62	–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

14. Share capital

	30.6.2010		31.12.2009	
	Number of shares '000	Total nominal value HK\$'000	Number of shares '000	Total nominal value HK\$'000
Authorised:				
At as 31 December				
Ordinary shares of HK\$0.01 each	20,000,000	200,000	20,000,000	100,000
Increased in authorised share capital	–	–	10,000,000	100,000
At 30 June	20,000,000	200,000	20,000,000	200,000
Issued and fully paid:				
At as 31 December				
Ordinary shares of HK\$0.01 each	3,219,582	32,196	2,217,025	22,170
Issue of shares for acquisition of a subsidiary	–	–	945,635	9,456
Issue of shares upon exercise of share option (Note i)	53,940	539	55,922	560
Issue of shares upon exercise of warrants	–	–	1,000	10
Issue of shares upon exercise of convertible equity-linked debt instruments (Note ii)	42,810	428	–	–
At 30 June	3,316,332	33,163	3,219,582	32,196

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

14. Share capital (Continued)

Notes:

- (i) During the period, an aggregate of 53,940,000 share options of the Company had been exercised, procuring the Company to allot and issue 53,940,000 shares of the Company to the eligible participants.
- (ii) On 23 February 2010, the Company issued convertible equity-linked debt instruments ("ELDs") with aggregate principal amount of HK\$40,000,000. During the period, all ELDs were converted into ordinary shares of the Company. Total number of ordinary shares converted was 42,810,000.

The details of ELDs were disclosed in the Company's announcement on 12 February 2010.

15. Equity settled share-based transactions

Share options of 6,700,000, 60,000,000 and 30,000,000 were granted at a cash consideration of HK\$1.00 to employees of the Group under the Group's share option scheme on 5 January 2010, 9 February 2010 and 4 May 2010 respectively (six months ended 30 June 2009: 172,200,000 share options were granted). Each option gives the holder the right to subscribe for one ordinary share of HK\$0.01 each of the Company. These share options will vest immediately from the date of grant and then be exercisable until 2013. The exercise prices are HK\$0.78, HK\$1.07 and HK\$1.11 respectively, being the weighted average closing price of the company's ordinary shares immediately before the grant.

53,940,000 share options were exercised during the six months ended 30 June 2010 (six months ended 30 June 2009: 54,062,000 share options were exercised). The weighted average share price at the date of exercise for shares options exercised during the year was HK\$1.038 (six months ended 30 June 2009: HK\$1.035).

The options outstanding as at 30 June 2010 had an exercise price of HK\$0.812 (31 December 2009: HK\$0.506) and a weighted average remaining contractual life of 2.24 years (31 December 2009: 6.003 years).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

16. Reserves

	Share Premium HK\$'000	Warrant reserve HK\$'000	Merger reserve HK\$'000	Share-based compensation reserve HK\$'000	Translation reserve HK\$'000	Investment valuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As at 1 January 2009 (audited)	518,409	24,720	8,390	57,096	(75)	(34,272)	(449,574)	124,694
Net loss for the period	-	-	-	-	-	-	(49,088)	(49,088)
Exchange differences arising on translation of foreign operations	-	-	-	-	(20)	-	-	(20)
Total comprehensive income for the period					(20)		(49,088)	(49,108)
Disposal of available-for-sale investment	-	-	-	-	-	34,272	-	34,272
Premium arising on issue of shares	620,998	-	-	-	-	-	-	620,998
Exercise of warrants	470	(80)	-	-	-	-	-	390
Exercise of share options	40,303	-	-	(12,622)	-	-	-	27,681
Forfeiture of share options	-	-	-	(2,901)	-	-	2,901	-
Equity-settled share-based payment transactions	-	-	-	23,403	-	-	-	23,403
Reserves transferred upon disposal of subsidiaries	-	-	-	-	76	-	-	76
	661,771	(80)	-	7,880	76	34,272	2,901	706,820
As at 30 June 2009 (unaudited)	1,180,180	24,640	8,390	64,976	(19)	-	(495,761)	782,406

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

16. Reserves (Continued)

	Share Premium HK\$'000	Warrant reserve HK\$'000	Share-based		Translation reserve HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
			Merger reserve HK\$'000	compensation reserve HK\$'000				
As at 1 January 2010 (audited)	1,181,334	-	8,390	26,391	111	-	(1,195,948)	20,278
Net loss for the period	-	-	-	-	-	-	(63,112)	(63,112)
Exchange differences arising on translation of foreign operations	-	-	-	-	453	-	-	453
Total comprehensive income for the period	-	-	-	-	453	-	(63,112)	(62,659)
Exercise of share options	35,421	-	-	(7,986)	-	-	-	27,435
Exercise of convertible equity-linked debt instruments	37,963	-	-	-	-	-	-	37,963
Equity-settled share-based payment transactions	-	-	-	44,207	-	-	-	44,207
Deemed acquisition of additional interest in a subsidiary	-	-	-	-	-	(402)	-	(402)
Forfeiture of share options	-	-	-	(4,545)	-	-	4,545	-
	73,384	-	-	31,676	-	(402)	4,545	109,203
As at 30 June 2010 (unaudited)	1,254,718	-	8,390	58,067	564	(402)	(1,254,515)	66,822

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

17. Acquisition of a subsidiary

On 19 April 2010, the Group acquired entire issued share capital of Wuxuan Tiejian Trading Co., Limited (“Wuxuan Tiejian”) for a total consideration of HK\$344,000 the acquired company was engaged in provision of procurement service of coal.

Assets and liabilities recognised at the date of acquisition

	HK\$'000
Current liabilities	
Other payable	(9)
Net identifiable net liabilities acquired	(9)

Goodwill arising on acquisition

	HK\$'000
Consideration transferred	344
Add: fair value of identifiable net liabilities acquired	9
Goodwill arising on acquisition	353

The goodwill on acquisition of the above subsidiary represents an opportunity for the Group to access to coal procurement business in PRC that were provided by the above newly acquired subsidiary.

Net cash outflow arising on acquisition

	HK\$'000
Consideration paid in cash	344
Less: cash and cash equivalent balances acquired	–
	344

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

17. Acquisition of a subsidiary (Continued)

Impact of acquisition on the results of the Group

Included in the loss for the interim period is profit of HK\$144,000 attributable to WuxuanTiejian. Revenue for the period includes HK\$3,612,000 in respect of Wuxuan Tiejian.

Had the acquisition of Wuxuan Tiejian been effected at 1 January 2010, the revenue and loss of Group for the six months ended 30 June 2010 would have been unchanged. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

18. Operating lease commitments

As at 30 June 2010, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	30.6.2010 HK\$'000	31.12.2009 HK\$'000
Within one year	5,907	4,829
In the second to fifth years inclusive	9,164	4,170
	15,071	8,999

19. Contingent liabilities

The Group had no significant contingent liabilities as at 30 June 2010 (31 December 2009: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

20. Related party transactions

Key management compensation

Remuneration for key management personnel, including amounts paid to the Company's directors are as follows:

	Six month ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Fee	363	375
Salaries and allowances	3,945	3,964
Bonus	–	160
Retirement scheme contributions	11	83
Share-based payments	448	23,101
	4,767	27,683

21. Approval of the interim financial statements

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board on 27 August 2010.