



HYBRID KINETIC GROUP LIMITED
正道集團有限公司

(Stock Code: 01188)

Interim Report 2010



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive

Dr Yeung Yung (*Chairman*)
 Dr Huang Chunhua (*Deputy Chairman*)
 Dr Wang Chuantao (*Chief Executive Officer*)
 Mr Liu Stephen Quan
 Mr Hui Wing Sang, Wilson
 Dr Zhu Shengliang
 Dr Wang Wei (appointed on 17 June 2010)
 Dr Zhang Zhenwei (appointed on 17 June 2010)
 Mr Xu Jianguo (appointed on 17 June 2010)
 Mr Li Zhengshan (appointed on 17 June 2010)
 Dr Hong Shuguang (appointed on 15 July 2010)
 Dr Hou Junwen (resigned on 23 June 2010)

Non-Executive

Dr Xia Tingkang, Tim
 (appointed on 17 June 2010)
 Dr Zhu Guobin (appointed on 15 July 2010)

Independent Non-Executive

Mr. He Bangjie
 Mr Ting Kwok Kit, Johnny
 Mr Wong Lee Hing
 Dr Song Jian (appointed on 14 May 2010)

AUDITORS

Grant Thornton
 Certified Public Accountants
 6th Floor, Nexus Building
 41 Connaught Road Central
 Hong Kong

PRINCIPAL BANKERS

East West Bank
 (U.S. branch)
 9550 Flair Drive
 E1 Monte CA91731

HSBC

PRINCIPAL OFFICE

Suites 1407-8, 14/F,
 Great Eagle Centre
 23 Harbour Road, Wanchai
 Hong Kong

REGISTERED OFFICE

Canon's Court
 22 Victoria Street
 Hamilton HM 12
 Bermuda

HONG KONG LEGAL ADVISOR

Chiu & Partners
 40th Floor, Jardine House,
 1 Connaught Place,
 Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
 6 Front Street, Hamilton HM11
 Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
 Services Limited
 Shops 1712-1716, 17th Floor
 Hopewell Centre, 183 Queen's Road East
 Hong Kong

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Notes	Six months ended 30 June	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Continuing operations			
Revenue	3	6,988	7,498
Cost of sales		(2,362)	(2,086)
Gross profit		4,626	5,412
Other income	4	1,023	1,305
Distribution costs and general operating expenses		(58,266)	(53,720)
Loss before income tax	6	(52,617)	(47,003)
Income tax expense	7	–	(936)
Loss for the period from continuing operations		(52,617)	(47,939)
Discontinued operations			
Profit for the period from discontinued operations	8	–	150
Loss for the period		(52,617)	(47,789)
Other comprehensive income			
Exchange differences on translation of financial statements of subsidiaries		213	166
Other comprehensive income for the period		213	166
Total comprehensive income for the period		(52,404)	(47,623)
Loss for the period attributable to:			
Owners of the Company		(52,354)	(47,945)
Non-controlling interests		(263)	156
		(52,617)	(47,789)
Total comprehensive income attributable to:			
Owners of the Company		(52,030)	(47,820)
Non-controlling interests		(374)	197
		(52,404)	(47,623)

		Six months ended 30 June	
	<i>Notes</i>	2010	2009
		(Unaudited)	(Unaudited)
(Loss)/Earnings per share for (loss)/profit attributable to owners of the Company during the period	<i>9</i>		
From continuing and discontinued operations			
Loss per share – basic		HK(0.85) cent	HK(0.87) cent
Loss per share – diluted		N/A	N/A
From continuing operations			
Loss per share – basic		HK(0.85) cent	HK(0.88) cent
Loss per share – diluted		N/A	N/A
From discontinued operations			
Earnings per share – basic		N/A	HK0.01 cent
Earnings per share – diluted		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

		As at 30 June 2010 HK\$'000 (Unaudited)	As at 31 December 2009 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	36,757	28,838
Available-for-sale financial asset		–	–
Goodwill		–	–
Intangible assets		16,903	18,063
Prepayments and deposits	12	18,546	19,040
		72,206	65,941
Current assets			
Inventories		1,876	57
Trade receivables	13	3,026	1,534
Prepayments, deposits and other receivables		146,155	84,118
Pledged bank deposits		806	806
Cash and cash equivalents		293,259	114,714
		445,122	201,229
Current liabilities			
Trade payables	14	110	99
Accruals and other payables		33,940	33,750
Amounts due to related parties		2,812	2,799
Amount due to a director		430	590
Borrowings		3,070	1,890
		40,362	39,128
Net current assets		404,760	162,101
Net assets		476,966	228,042
EQUITY			
Equity attributable to owners of the Company			
Share capital	15	678,824	582,821
Reserves		(226,008)	(379,303)
		452,816	203,518
Non-controlling interests		24,150	24,524
Total equity		476,966	228,042

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(103,860)	(96,492)
Net cash used in investing activities	(12,067)	(4,696)
Net cash generated from financing activities	294,066	190
Increase/(Decrease) in cash and cash equivalents	178,139	(100,998)
Cash and cash equivalents at beginning of period	114,714	178,809
Effect of foreign exchange rate changes, net	406	382
Cash and cash equivalents at end of period	293,259	78,193

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Equity attributable to owners of the Company						Non-	Total
	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Translation reserve HK\$'000 (Unaudited)	Equity		Total HK\$'000 (Unaudited)	controlling interests HK\$'000 (Unaudited)	equity HK\$'000 (Unaudited)
				compensation reserve HK\$'000 (Unaudited)	Accumulated losses HK\$'000 (Unaudited)			
At 1 January 2010	582,821	345,874	1,549	43,530	(770,256)	203,518	24,524	228,042
Transactions with owners								
Issuance of new shares	79,830	211,075	-	-	-	290,905	-	290,905
Share issue expenses	-	(19,417)	-	-	-	(19,417)	-	(19,417)
Recognition of equity-settled share-based compensation	-	-	-	8,282	-	8,282	-	8,282
Proceeds from shares issued under share option scheme	16,173	12,720	-	(7,335)	-	21,558	-	21,558
Total transactions with owners	96,003	204,378	-	947	-	301,328	-	301,328
Comprehensive income								
Loss for the period	-	-	-	-	(52,354)	(52,354)	(263)	(52,617)
Other comprehensive income								
Exchange differences on translation of financial statements of subsidiaries	-	-	324	-	-	324	(111)	213
Total comprehensive income	-	-	324	-	(52,354)	(52,030)	(374)	(52,404)
At 30 June 2010	678,824	550,252	1,873	44,477	(822,610)	452,816	24,150	476,966
	Equity attributable to owners of the Company						Non-	Total
	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Translation reserve HK\$'000 (Unaudited)	Equity		Total HK\$'000 (Unaudited)	controlling interests HK\$'000 (Unaudited)	equity HK\$'000 (Unaudited)
				compensation reserve HK\$'000 (Unaudited)	Accumulated losses HK\$'000 (Unaudited)			
At 1 January 2009	548,305	306,817	1,455	19,320	(645,180)	230,717	22,332	253,049
Transactions with owners								
Recognition of equity-settled share-based compensation	-	-	-	12,719	-	12,719	-	12,719
Total transactions with owners	-	-	-	12,719	-	12,719	-	12,719
Comprehensive income								
Loss for the period	-	-	-	-	(47,945)	(47,945)	156	(47,789)
Other comprehensive income								
Exchange differences on translation of financial statements of subsidiaries	-	-	125	-	-	125	41	166
Total comprehensive income	-	-	125	-	(47,945)	(47,820)	197	(47,623)
At 30 June 2009	548,305	306,817	1,580	32,039	(693,125)	195,616	22,529	218,145

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2010

1. BASIS OF PREPARATION

The unaudited interim financial information (the "Unaudited Interim Financial Information") of the Company and its subsidiaries, (collectively referred to as the "Group") 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") and with the applicable disclosure provisions in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Unaudited Interim Financial Information is presented in Hong Kong Dollars ("HK\$"), which is also the functional currency of the Company and all values are rounded to the nearest thousand ("HK\$'000") unless otherwise stated.

The Unaudited Interim Financial Information for the six months ended 30 June 2010 was approved for issue by the board of directors on 31 August 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Unaudited Interim Financial Information has been prepared in accordance with the accounting policies and method of comparatives used in the annual financial statements of the Company for the year ended 31 December 2009 (the "2009 Annual Financial Statements"), except for the adoption of the new or amended Hong Kong Financial Reporting Standards ("HKFRSs"), which include individual Hong Kong Financial Reporting Standards, HKASs and Interpretations ("Int") as disclosed below. The Unaudited Interim Financial Information should be read in conjunction with the 2009 Annual Financial Statements.

In the current period, the Group has applied for the first time the following new or amended HKFRSs issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual financial period beginning on 1 January 2010.

HKFRS 3 (Revised 2008)	Business Combinations
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements
Various	Annual Improvements to HKFRSs 2009

Other than as noted below, the adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKFRS 3 (Revised 2008) Business Combinations (“HKFRS 3R”)

HKFRS 3R introduced major changes to the accounting requirements for business combinations. It retains the major features of the purchase method of accounting, now referred to as the acquisition method. The most significant changes in the revised HKFRS 3R that had an impact on the Group’s acquisitions in 2010 are as follows:

- Acquisition-related costs of the combination are recorded as an expense in profit or loss. Previously, these costs would have been accounted for as part of the cost of the acquisition.
- The assets acquired and liabilities assumed are generally measured at their acquisition-date fair values unless HKFRS 3R provides an exception and provides specific measurement rules.
- Any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration arrangement gives rise to a financial liability, any subsequent changes are generally recognised in profit or loss. Previously, contingent consideration was recognised at the acquisition date only if its payment was probable.

HKFRS 3R has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2010. Business combinations for which the acquisition date is before 1 January 2010 have not been restated. The adoption of HKFRS 3R did not have an impact in the Unaudited Interim Financial Information.

HKAS 27 (Revised 2008) Consolidated and Separate Financial Statements (“HKAS 27R”)

The adoption of HKFRS 3R required that the revised HKAS 27R is adopted at the same time. HKAS 27R introduced changes to the accounting requirements for transactions with non-controlling interests (formerly called “minority interests”) and the loss of control of a subsidiary. Similar to HKFRS 3R, the adoption of HKAS 27R is applied prospectively. The Group did not have transactions with non-controlling interests in the current period and did not dispose of any of its equity interests in its subsidiaries. Therefore, the adoption of HKAS 27R did not have an impact in the Unaudited Interim Financial Information.

Annual Improvements to HKFRSs 2009 (“2009 Improvements”)

The 2009 Improvements made several minor amendments to HKFRSs. The only amendment relevant to the Group relates to HKAS 17 Leases. The amendment requires that leases of land are classified as finance or operating applying the general principles of HKAS 17. Prior to this amendment, HKAS 17 generally required a lease of land to be classified as an operating lease.

3. REVENUE

Revenue, which is also the Group’s turnover, represents total invoiced value of goods supplied and services rendered. Revenue recognised during the period is as follows:

	Continuing operations		Six months ended 30 June		Consolidated	
	2010	2009	Discontinued operations	2009	2010	2009
	HK\$’000	HK\$’000	2010	HK\$’000	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues from operation of indoor games centres	-	-	-	563	-	563
Sales of bio-organic fertilizer	6,988	7,498	-	-	6,988	7,498
	6,988	7,498	-	563	6,988	8,061

4. OTHER INCOME

	Continuing operations		Six months ended 30 June		Consolidated	
	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Bank interest income	323	455	-	1	323	456
Imputed interest income on long-term interest-free deposits	592	549	-	-	592	549
Miscellaneous	108	301	-	-	108	301
	1,023	1,305	-	1	1,023	1,306

5. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Company's executive directors. The executive directors have identified the Group's product and service lines as operating segments as follows:

- (i) Environmental products and related business; and
- (ii) Natural resources business.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

In 2009, the Group had discontinued its operation of indoor game centres and manufacture and sales of automobile axles. These operations had been presented as discontinued operations in the Unaudited Interim Financial Information. Further details regarding the results of these discontinued operations were set out in note 8.

Six months ended 30 June 2010

	Environmental products and related business HK\$'000 (Unaudited)	Natural resources business HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Revenue			
Sales to external customers	6,988	–	6,988
Segment results	(552)	(448)	(1,000)
Unallocated income and expense, net			(43,335)
Share-based compensation			(8,282)
Loss before income tax			(52,617)
Income tax expense			–
Loss for the period from continuing operations			(52,617)
Profit for the period from discontinued operations			–
Loss for the period			(52,617)

Six months ended 30 June 2009

	Environmental products and related business HK\$'000 (Unaudited)	Natural resources business HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Revenue			
Sales to external customers	7,498	–	7,498
Segment results	(6,684)	(839)	(7,523)
Unallocated income and expense, net			(26,761)
Share-based compensation			(12,719)
Loss before income tax			(47,003)
Income tax expense			(936)
Loss for the period from continuing operations			(47,939)
Profit for the period from discontinued operations			150
Loss for the period			(47,789)

For the six months ended 30 June 2010 and 2009, the Group's revenue is all derived in the People's Republic of China ("PRC").

At 30 June 2010, non-current assets (other than financial instruments) of HK\$410,000 (31 December 2009: HK\$1,379,000), HK\$27,982,000 (31 December 2009: HK\$24,658,000) and HK\$25,268,000 (31 December 2009: HK\$22,218,000) are located in the Hong Kong, PRC and the United States respectively.

The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the non-current assets (other than financial instruments) is based on the physical location of the asset.

The management determines the Group is domiciled in Hong Kong, which is the location of the Group's principal office.

6. LOSS BEFORE INCOME TAX

Loss before income tax is arrived after charging:

	Continuing operations		Six months ended 30 June Discontinued operations		Consolidated	
	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Staff cost (including directors' emoluments)	15,519	10,920	–	194	15,519	11,114
Share-based compensation	8,282	12,719	–	–	8,282	12,719
Amortisation of intangible assets	1,358	1,349	–	–	1,358	1,349
Depreciation of property, plant and equipment	4,918	4,062	–	–	4,918	4,062

7. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (Six months ended 30 June 2009: Nil). Tax on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

	Continuing operations		Six months ended 30 June Discontinued operations		Consolidated	
	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax						
– PRC	–	936	–	7	–	943

8. DISCONTINUED OPERATIONS

As disclosed in note 11.1 to the 2009 Annual Financial Statements, on 30 December 2009, the board of directors resolved that the Group would discontinue operation of indoor game centre and manufacture and sales of automobile axles business with effect from 31 December 2009. Operation of indoor game centres and manufacture and sales of automobile axles represent separate major lines of businesses, and the operations and cash flows of which can be clearly distinguished from the rest of the Group. Therefore, for the six months ended 30 June 2009, the Group re-presented, in the Unaudited Interim Financial Information, these operations as discontinued operations in accordance with HKFRS 5 so that the disclosures relate to these operations that have been discontinued by the reporting date for the latest period presented.

For the six months ended 30 June 2010, the operation of indoor game centre and manufacture and sales of automobile axles business had been fully suspended and therefore no income and expenses were classified as discontinued operations in the Group's condensed consolidated statement of comprehensive income for the period.

An analysis of the results of the discontinued operations for the six months ended 30 June 2009 is as follows:

	Six months ended 30 June 2009 HK\$'000 (Unaudited)
Revenue	563
Cost of sales	(98)
Gross profit	465
Other income	1
Distribution costs and general operating expenses	(309)
Profit before income tax	157
Income tax expense	(7)
Profit for the period	150

9. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit/(Loss) attributable to owners of the Company for the purpose of basic (loss)/earnings per share		
Continuing operations	(52,354)	(48,095)
Discontinued operations	-	150
Total loss from continuing and discontinued operations	(52,354)	(47,945)

	Six months ended 30 June	
	2010	2009
	Number of shares	Number of shares
	'000	'000
	(Unaudited)	(Unaudited)
Weighted average number of shares for the purpose of basic (loss)/earnings per share	6,183,046	5,483,054
Effect of dilutive potential shares:		
– share options issued by the Company	300,391	–
Weighted average number of shares for the purpose of dilutive (loss)/earnings per share	6,483,437	5,483,054

Diluted loss per share for the six months ended 30 June 2010 was not presented because the impact of the exercise of the share options was anti-dilutive. Potential ordinary shares are dilutive when and only when their conversion into ordinary shares would reduce earnings per share attributable to owners of the Company.

For the six months ended 30 June 2009, diluted loss/profit per share from continuing operations and discontinued operations was not presented because the exercise price of the Company's share options were higher than the average market price per share for that period.

10. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (Six months ended 30 June 2009: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2010, the Group acquired property, plant and equipment of HK\$12,726,000 (Six months ended 30 June 2009: HK\$5,152,000). In addition, property, plant and equipment with carrying amount of HK\$1,000 (Six months ended 30 June 2009: HK\$1,058,000) were disposed of during the period.

12. PREPAYMENTS AND DEPOSITS

	As at 30 June 2010 HK\$'000 (Unaudited)	As at 31 December 2009 HK\$'000 (Audited)
Deposits for management agreements	18,546	17,686
Prepayment for acquisition of land use right and property, plant and equipment	–	1,354
	18,546	19,040

The deposits for management agreements are interest-free, unsecured and repayable in the third quarter in 2011.

13. TRADE RECEIVABLES

As at 30 June 2010, the aging analysis of the trade receivables (net of impairment) of the Group was as follows:

	As at 30 June 2010 HK\$'000 (Unaudited)	As at 31 December 2009 HK\$'000 (Audited)
1 to 3 months	2,733	1,534
More than 3 months	293	–
	3,026	1,534

14. TRADE PAYABLES

As at 30 June 2010, the aging analysis of the trade payables of the Group was as follows:

	As at 30 June 2010 HK\$'000 (Unaudited)	As at 31 December 2009 HK\$'000 (Audited)
1 to 3 months	19	–
More than 3 months	91	99
	110	99

15. SHARE CAPITAL

	As at 30 June 2010 (Unaudited)		As at 31 December 2009 (Audited)	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.10 each <i>(note)</i>	800,000,000,000	80,000,000	30,000,000,000	3,000,000
<i>Issued and fully paid:</i>				
At beginning of period/year	5,828,210,464	582,821	5,483,054,464	548,305
Placement of shares during the period/year	798,300,000	79,830	200,000,000	20,000
Issue of shares on acquisition of a subsidiary	-	-	78,000,000	7,800
Employee share options scheme – proceeds from shares issued	161,728,600	16,173	67,156,000	6,716
At end of period/year	6,788,239,064	678,824	5,828,210,464	582,821

Note: At the special general meeting held in January 2010, the Company's shareholders have resolved to increase the Company's authorised share capital from HK\$3,000,000,000 to HK\$80,000,000,000 by the increase of additional 770,000,000,000 ordinary shares of HK\$0.10 each.

16. CAPITAL COMMITMENT

As at 30 June 2010, the Group has the following capital commitments:

	As at 30 June 2010 HK\$'000 (Unaudited)	As at 31 December 2009 HK\$'000 (Audited)
Contracted but not provided for		
– Setting up a subsidiary in PRC	5,766	5,681
– Purchase of property, plant and equipment	1,564	-
	7,330	5,681

MANAGEMENT DISCUSSION AND ANALYSIS AND DISCLOSURE OF ADDITIONAL INFORMATION

BUSINESS REVIEW

Overview

The principal business of the Group during the period included environmental products and related business, natural resources business and automobile business. The Group's turnover from continuing operations and loss for the period attributable to shareholders for the first six months of 2010 amounted to HK\$6.99 million (2009: HK\$7.50 million) and HK\$52.35 million (2009: HK\$47.95 million) respectively.

As compared with the corresponding period in 2009, the turnover decreased by approximately 6.80% while the loss increased by 9.20%. The increase in loss was mainly due to the expenses incurred for the promotion and development of the new energy automobile projects. The general operating expenses of continuing operations for the six months ended 30 June 2010 increased to HK\$58.27 million (2009: HK\$54.03 million) which include professional expenses of HK\$10.18 million (2009: HK\$7.17 million), travelling expenses of HK\$4.58 million (2009: HK\$2.06 million), share-based compensation of HK\$8.28 million (2009: HK\$12.72 million) for the share options issued during the period and staff cost of HK\$15.52 million (2009: HK\$11.11 million).

(a) Environmental products and related business

During the period, Beijing Century Wanyeyuan Bio-Engineering Co., Ltd. ("Beijing Century"), a wholly-owned subsidiary of the Company, recorded a turnover of HK\$6.99 million (2009: HK\$7.50 million). This business sector recorded a loss of HK\$0.55 million (2009: HK\$6.68 million). At the beginning of the year, a factory was established in Shandong, the PRC to increase production of bio-organic fertilizer for supporting future demand. The Board believes that, with the establishment of the production facility, the production capacity of Beijing Century will be strengthened to meet future demand. This will place the Group in a better position to more rapidly expand the market share of its environmentally-friendly products in the nationwide bio-organic fertilizer markets.

(b) Natural resources business

During the period, Jilin Shengshi Mining Limited ("Jilin Shengshi"), a wholly owned subsidiary of the Company, had not recorded any revenue. Currently, a subsidiary of Jilin Shengshi is applying for the renewal of two mine exploration rights in Jilin. Other than holding and managing its own mine exploration rights, Jilin Shengshi also entered into management agreements with owners of mine exploration rights for providing mine management services by which Jilin Shengshi is entitled to a management fee which is basically calculated by reference to certain percentage of the distributable profits (if distributable profits has arisen) after tax of the mines which are the subject of the management agreements.

(c) Automobile business

During the period, the automobile business achieved significant progress in the research and development of new energy and eco-friendly vehicles. The Company's participation in the U.S. automobile project together with the ancillary structures and arrangements devised (including the model for financing the development of the U.S. automobile project) was approved by the Company's shareholders at the special general meeting held on 26 January 2010. These achievements enable the Company to stay competitive in the new-energy automobile industry.

PROSPECTS

As the world continues to place an important focus on environmental protection issues (especially for the automobile sector), and the rise of environmental consciousness which has become the "modern living" of the general public, it is expected that there will be substantial demand for environmentally friendly vehicles in the years ahead.

Accordingly, the Board considers that the diversification of the Group's business into the automobile sector is of great potential and is worthwhile to pursue. The Group will continue to strive to realize its strategic goal to develop and produce vehicles utilizing the most advanced natural gas and multi-fuel electric-hybrid propulsion systems, which reduce carbon dioxide emissions and increase mileage per gallon to standards above those set by global regulatory authorities.

Since the Group's decision to participate in the automobile industry, it has achieved certain important goals in the past six months. For instance, the Group has entered into collaboration with The American Public Gas Association and Natural Gas Vehicles for America in the automobile sector to promote the mass production and sale of natural gas-power hybrid passenger vehicles. This will help further promote the Group's market position to enable itself to become the first enterprise specializing in the mass production of hybrid electric automobiles globally. As one of the long-term business strategies of the Group, it targets to set up production bases in different countries, such as the U.S. and the PRC markets.

In April this year, the Group entered into an agreement for the proposed acquisition of Zhejiang GBS Energy Co., Ltd. ("GBS"), a specialist enterprise in the manufacturing of lithium-ion batteries and power battery packs used in electric and hybrid electric vehicles. The acquisition, if materialized, will greatly enhance the research and development ("R&D") capabilities of the Group.

Furthermore, the Group entered into framework agreements with 安徽江淮汽車股份有限公司 (transliterated into English as "Anhui Jianghuai Automobile Co., Ltd." for identification purpose) ("JAC") and 合肥經濟技術開發區管理委員會 (transliterated into English as "The Administration Authority of the Hefei Economic Development Zone" ("Hefei ED Zone") for identification purpose) to further cooperate in the eco-friendly new energy automobile industry. The co-operation provides a huge driving force for business development in the future R&D, design and production of eco-friendly new energy motors and auto-related products and accessories.

HK Capital Company Ltd (“HK Capital”), a wholly-owned subsidiary of the Company in Tianjin, the PRC whose principal scope of business includes entrusted investment management and investment consultation, has been active in exploring the future business development of the automobile industry in China. The Group believes that a huge opportunity is emerging and it is in a good position to capture this opportunity as it is served by talented and experienced experts in the automobile industry from not only the U.S., but also other parts of the world, including Europe and the PRC.

FUND RAISING ACTIVITIES AND USE OF PROCEEDS DURING THE YEAR

The Group adopts a prudent approach for cash management and investment on uncommitted funds. The proceeds raised and utilised or remain unutilised as at 30 June 2010 are stated as follows:–

Date of announcement	Event	Net proceeds raised	Intended use of proceeds as announced	Actual use of proceeds
1, 2 and 15 December 2009	Placing and top-up subscription of 200 million new Shares	HK\$48.19 million	General working capital of the Group	Approximately HK\$39.92 million was utilized as general working capital of the Group
25 and 26 March, 8 April 2010	Placing of 338.3 million new Shares	HK\$110.49 million	90% for research and development in automotive-related technology and 10% as general working capital	Approximately HK\$61.80 million was utilized as research and development in automotive-related technology, & HK\$9.90 million was utilized as general working capital of the automotive project
5 and 13 May 2010	Placing of 460 million new Shares	HK\$160.99 million	Acquisition of the Target Company (namely, GBS) and general working capital of the Group	Not yet utilized

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2010, the total equity of the Group amounted to HK\$476.97 million (31 December 2009: HK\$228.04 million). The gearing ratio of the Group as at 30 June 2010 measured in terms of total liabilities divided by shareholders' equity was approximately 9% (31 December 2009: 19.23%). As at 30 June 2010, net current assets of the Group were approximately HK\$404.76 million (31 December 2009: HK\$162.10 million). The pledged bank deposits were approximately HK\$0.81 million (31 December 2009: HK\$0.81 million) while the cash and cash equivalents amounted to HK\$293.26 million (31 December 2009: HK\$114.71 million). The Group also had outstanding borrowings of approximately HK\$3.07 million (31 December 2009: HK\$1.89 million).

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group had a total of approximately 122 employees as at 30 June 2010. It has been the Group's policy to ensure that the remuneration levels of its employees are reviewed and rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to employees of the Group.

CHARGES OF GROUP ASSETS

As at 30 June 2010, bank deposits of HK\$0.81 million (31 December 2009: HK\$0.81 million) were pledged to secure the general banking facilities granted to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

Almost all of the income and expenditure of the Group were denominated in Renminbi, Hong Kong Dollar and United States Dollar. The Group has not taken any financial instruments for hedging purpose during the period.

LOAN AGREEMENT

On 29 June 2009 (U.S. time), the Company entered into a loan agreement ("Loan Agreement") with Hybrid Kinetic Motors Investment, LLC ("HKMI") in respect of the advancement of a loan ("Loan") in the principal amount of US\$9 million by the Company to HKMI. The Loan, which is non-interest bearing and repayable on demand, is secured against the entire ownership interest of the sole member of HKMI in HKMI. The purpose of the Loan is to provide initial general working capital to HKMI. The granting of the Loan does not cause significant financial impact on the Group and paves the way for future co-operation with HKMI in the development of the Group's business in the U.S. automobile industry.

MATERIAL ACQUISITIONS AND DISPOSALS

Very Substantial Acquisition of a PRC Power Battery Company

On 18 April 2010, the Company entered into an acquisition agreement (as subsequently varied, modified and/or supplemented by two several supplemental agreements dated 20 April 2010 and 6 June 2010) in relation to the proposed acquisition of GBS at a consideration of RMB180 million (equivalent to HK\$204.7 million), which was yet to be completed as at the date of this report. GBS is a sino-foreign equity joint venture established in the Zhejiang Province and specializes in the development and manufacturing of LiFeMnPO₄ (磷酸亞鐵錳鋰) (a kind of lithium-ion power battery (鋰離子動力電池)) and power battery pack.

EVENT AFTER THE REPORTING DATE

On 23 July 2010, Hybrid Kinetic Power Battery Holdings Limited (“HK-Power”), a wholly-owned subsidiary of the Company, entered into a technology development agreement with GBS pursuant to which HK-Power agreed to engage GBS, and GBS agreed to undertake a research and development project relating to power battery for electric and hybrid vehicles at an agreed fee of RMB15 million.

On 3 August, 2010, the Group announced that HK Capital entered into a non-legal binding letter of intent with JAC to record the mutual understanding of establishing an equity joint ventures (the “EJV”) for the development of eco-friendly new energy motors and auto-related products.

On 8 August, 2010, the Group announced that HK Capital entered into a framework agreement with JAC and another framework agreement with JAC and Hefei ED Zone relating to the proposed co-operation to establish the EJV for development of eco-friendly new energy motors and auto-related products and confirming the parties’ intention that the EJV (and the project to be carried out by the EJV) will be located in Hefei City of the Anhui Province, the PRC.

SUBSTANTIAL SHAREHOLDERS’ INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2010, according to the register kept by the Company pursuant to section 336 of the Securities and Futures Ordinance (“SFO”) and so far as is known to, or can be ascertained after reasonable enquiry by the directors of the Company, the following parties had an interest or short position in the shares and underlying shares of the Company (“Shares”) which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Nature of interest	Number of Shares	Percentage <i>(Note 2)</i>
Sun East LLC	Beneficial Owner <i>(Note 1)</i>	2,213,268,989	32.60%
Huang Xiujuan	Beneficial Owner	340,560,000	5.02%

Note:

1. Sun East LLC is owned as to 35% by Dr Yeung Yung (shared commonly with his wife under the laws of California, the US) and 65% by Mr Ma Manwai (alias Ma Manwai, Philip) and Mr Jimmy Wang (alias Wang Jian) as co-trustees for certain trusts established for the benefit of the children of Dr Yeung Yung on 30 December 2002. Dr Yeung Yung (as well as his spouse) was deemed to be interested in these 2,213,268,989 Shares held by Sun East LLC under Part XV of the SFO.
2. The percentage of shareholding is calculated on the basis of 6,788,239,064 Shares in issue as at 30 June 2010 and does not taken into account any Shares which may fall to be allotted and issued upon exercise of any subscription rights attaching to any share options granted by the Company.

Save as disclosed above, no person, other than Directors whose interests are set out in the section “Directors’ and chief executive’s interests and short positions” below, had registered an interest or short positions in the share capital or underlying shares of the Company that was required to be recorded under Section 336 of SFO.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

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 or any of its associated corporations (within the meaning of the Part XV of the SFO as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follow:

(1) Long positions in the ordinary share (each a "Share") of HK\$0.10 each in the Company

Name of director	Capacity	Number of Shares held	Percentage of the issued share capital of the Company (Note 1)
Yeung Yung	Interest of controlled Corporation	2,213,268,989 (Note 2)	32.60%
Liu Stephen Quan	Family interest	241,760,000 (Note 3)	3.56%
Hui Wing Sang, Wilson	Beneficial owner	2,000,000	0.03%
Zhu Shengliang	Beneficial owner	5,333,883	0.08%
Li Zhengshan	Beneficial owner	7,700,000	0.11%

Notes:

- The percentage of shareholding is calculated on the base of 6,788,239,064 Shares in issue as at 30 June 2010 and does not take into account any Shares which may fall to be allotted and issued upon exercise of any subscription rights attaching to any share options granted by the Company.
- These Shares are held by Sun East LLC. Sun East LLC is a limited liability company incorporated in California, the US, which is owned as to (i) 35% by Dr Yeung Yung (shared commonly with his spouse under the laws of California, the US) and (ii) 65% by Mr Ma Manwai (alias Ma Manwai, Philip) and Mr Jimmy Wang (alias Wang Jian) as co-trustees for certain trusts established for the benefit of the children of Dr Yeung Yung on 30 December 2002. Dr Yeung Yung (as well as his spouse) was deemed to be interested in these 2,213,268,989 Shares held by Sun East LLC under Part XV of the SFO.
- These Shares are held by Fortune Venture Holding Limited, a company incorporated in the British Virgin Islands whose entire issued share capital is solely and beneficially owned by Ms Li Xiaojin (the spouse of Mr Liu Stephen Quan). Mr Liu Stephen Quan is deemed to be interested in these 241,760,000 Shares held by his spouse by virtue of Part XV of the SFO.

All the interests stated above represent long positions.

(2) Interests in share options of the Company

Name of Director	Date of grant	Exercisable period	Exercise Price (HK\$)	Number of underlying Shares subject to Outstanding Options	Approximate percentage of shareholding (Note)
Yeung Yung	2 November 2000	2 November 2000 to 1 November 2010	0.343	24,028,980	
	29 August 2005	29 August 2005 to 8 August 2015	0.102	11,140,000	
	6 February 2008	6 February 2008 to 5 February 2018	0.114	27,000,000	
	24 June 2009	24 June 2009 to 11 June 2013	0.123	40,000,000	
				102,168,980	1.50%
Huang Chunhua	24 June 2009	24 June 2009 to 11 June 2013	0.123	20,000,000	
	17 November 2009	17 November 2009 to 11 June 2013	0.295	10,000,000	
				30,000,000	0.44%
Liu Stephen Quan	6 February 2008	6 February 2008 to 5 February 2018	0.114	27,000,000	
	24 June 2009	24 June 2009 to 11 June 2013	0.123	13,000,000	
				40,000,000	0.59%
Wang Chuantao	24 June 2009	24 June 2009 to 11 June 2013	0.123	15,000,000	
	17 November 2009	17 November 2009 to 11 June 2013	0.295	10,000,000	
				25,000,000	0.37%
Hui Wing Sang, Wilson	6 February 2008	6 February 2008 to 5 February 2018	0.114	27,000,000	
	24 June 2009	24 June 2009 to 11 June 2013	0.123	21,000,000	
				48,000,000	0.71%

Name of Director	Date of grant	Exercisable period	Exercise Price (HK\$)	Number of underlying Shares subject to Outstanding Options	Approximate percentage of shareholding (Note)
Zhu Shengliang	9 August 2005	29 August 2005 to 8 August 2015	0.102	16,710,000	
	24 June 2009	24 June 2009 to 11 June 2013	0.123	1,290,000	
	10 July 2009	10 July 2009 to 11 June 2013	0.185	10,000,000	
				28,000,000	0.41%
Wang Wei	17 November 2009	17 November 2009 to 11 June 2013	0.295	7,000,000	0.10%
Zhang Zhenwei	24 June 2009	24 June 2009 to 11 June 2013	0.123	7,500,000	0.11%
Xu Jianguo	15 April 2010	15 April 2010 to 11 June 2013	0.368	5,000,000	0.07%
Li Zhengshan	29 August 2005	29 August 2005 to 8 August 2015	0.102	5,570,000	
	6 February 2008	6 February 2008 to 17 January 2018	0.114	5,000,000	
	24 June 2009	24 June 2009 to 11 June 2013	0.123	4,430,000	
				15,000,000	0.22%
He Bangjie	6 February 2008	6 February 2008 to 5 February 2018	0.114	2,000,000	
	10 July 2009	10 July 2009 to 11 June 2013	0.185	4,000,000	
				6,000,000	0.09%
Ting Kwok Kit, Johnny	10 July 2009	10 July 2009 to 11 June 2013	0.185	4,000,000	0.06%

Note: The percentage of shareholding is calculated on the basis of 6,788,239,064 Shares in issue as at 30 June 2010.

Save as disclosed above, none of the Directors or the chief executive of the Company had or were deemed to have any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 30 June 2010.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 15 March 1995 (the "1995 Scheme"), which was terminated on 12 June 2003, and a new share option scheme (the "2003 Scheme"), which is currently in force, was adopted by the Company on 12 June 2003.

The following share options were outstanding under the 1995 Scheme and 2003 Scheme during the period from 1 January to 30 June 2010:

Name or Category of Participant	As at 1 January 2010	Reclassification during the period	Shares Options		Share Options Exercised	As at 30 June 2010	Date of Grant	Exercise Price	Exercise Period
			Shares Options Granted	Lapsed/ cancelled during the period					
Director									
Yeung Yung	11,140,000	-	-	(11,140,000)	-	-	Note 1	Note 1	Note 1
	24,028,980	-	-	-	-	24,028,980	Note 2	Note 2	Note 2
	11,140,000	-	-	-	-	11,140,000	Note 4	Note 4	Note 4
	27,000,000	-	-	-	-	27,000,000	Note 5	Note 5	Note 5
	40,000,000	-	-	-	-	40,000,000	Note 6	Note 6	Note 6
Huang Chunhua	-	20,000,000	-	-	-	20,000,000	Note 6	Note 6	Note 6
	-	10,000,000	-	-	-	10,000,000	Note 8	Note 8	Note 8
Liu Stephen Quan	27,000,000	-	-	-	-	27,000,000	Note 5	Note 5	Note 5
	13,000,000	-	-	-	-	13,000,000	Note 6	Note 6	Note 6
Hui Wing Sang, Wilson	27,000,000	-	-	-	-	27,000,000	Note 5	Note 5	Note 5
	21,000,000	-	-	-	-	21,000,000	Note 6	Note 6	Note 6
Zhu Shengliang	16,710,000	-	-	-	-	16,710,000	Note 4	Note 4	Note 4
	1,290,000	-	-	-	-	1,290,000	Note 6	Note 6	Note 6
	10,000,000	-	-	-	-	10,000,000	Note 7	Note 7	Note 7
Wang Chuantao	15,000,000	-	-	-	-	15,000,000	Note 6	Note 6	Note 6
	10,000,000	-	-	-	-	10,000,000	Note 8	Note 8	Note 8
Wang Wei	-	7,000,000	-	-	-	7,000,000	Note 8	Note 8	Note 8
Zhang Zhenwei	-	7,500,000	-	-	-	7,500,000	Note 6	Note 6	Note 6
Xu Jianguo	-	-	5,000,000	-	-	5,000,000	Note 9	Note 9	Note 9
Li Zhengshan	-	5,570,000	-	-	-	5,570,000	Note 4	Note 4	Note 4
	-	5,000,000	-	-	-	5,000,000	Note 5	Note 5	Note 5
	-	4,430,000	-	-	-	4,430,000	Note 6	Note 6	Note 6
He Bangjie	2,000,000	-	-	-	-	2,000,000	Note 5	Note 5	Note 5
	4,000,000	-	-	-	-	4,000,000	Note 7	Note 7	Note 7
Ting Kwok Kit, Johnny	4,000,000	-	-	-	-	4,000,000	Note 7	Note 7	Note 7
Hou Junwen	7,500,000	(7,500,000)	-	-	-	-	Note 6	Note 6	Note 6
Sub-Total	271,808,980	52,000,000	5,000,000	(11,140,000)	-	317,668,980			

Name or Category of Participant	As at 1 January 2010	Reclassification during the period	Shares Options Lapsed/ cancelled/			As at 30 June 2010	Date of Grant	Exercise Price	Exercise Period
			Shares Options Granted	during the period	Share Options Exercised				
Employee	4,678,800	-	-	(4,678,800)	-	-	<i>Note 1</i>	<i>Note 1</i>	<i>Note 1</i>
(in aggregate)	9,357,600	-	-	-	-	9,357,600	<i>Note 2</i>	<i>Note 2</i>	<i>Note 2</i>
	19,241,008	-	-	-	(17,013,008)	2,228,000	<i>Note 3</i>	<i>Note 3</i>	<i>Note 3</i>
	41,917,000	(5,570,000)	-	-	(19,983,000)	16,364,000	<i>Note 4</i>	<i>Note 4</i>	<i>Note 4</i>
	84,800,000	(5,000,000)	-	-	(42,000,000)	37,800,000	<i>Note 5</i>	<i>Note 5</i>	<i>Note 5</i>
	166,724,592	(24,430,000)	-	-	(51,592,592)	90,702,000	<i>Note 6</i>	<i>Note 6</i>	<i>Note 6</i>
	34,000,000	-	-	-	(10,000,000)	24,000,000	<i>Note 7</i>	<i>Note 7</i>	<i>Note 7</i>
	81,000,000	(17,000,000)	-	(10,000,000)	(10,000,000)	44,000,000	<i>Note 8</i>	<i>Note 8</i>	<i>Note 8</i>
	-	-	55,000,000	(500,000)	-	54,500,000	<i>Note 9</i>	<i>Note 9</i>	<i>Note 9</i>
Sub-Total	441,719,000	(52,000,000)	55,000,000	(15,178,800)	(153,588,600)	278,951,600			
Other eligible persons:	23,280,000	-	-	-	(11,140,000)	12,140,000	<i>Note 4</i>	<i>Note 4</i>	<i>Note 4</i>
(in aggregate)	15,000,000	-	-	-	-	15,000,000	<i>Note 5</i>	<i>Note 5</i>	<i>Note 5</i>
	8,500,000	-	-	-	-	8,500,000	<i>Note 6</i>	<i>Note 6</i>	<i>Note 6</i>
Sub-Total	46,780,000	-	-	-	(11,140,000)	35,640,000			
Total:	760,307,980	-	60,000,000	(26,318,800)	(164,728,600)	632,260,580			

Notes:

1. These share options were granted on 16 February 2000 and are exercisable at a subscription price of HK\$0.619 per share at any time during the period of 10 years from 16 February 2000 to 15 February 2010.
2. These share options were granted on 2 November 2000 and are exercisable at a subscription price of HK\$0.343 per share at any time during the period of 10 years from 2 November 2000 to 1 November 2010.
3. These share options were granted on 5 January 2004 and are exercisable at a subscription price of HK\$0.144 per share at any time during the period of 10 years from 26 January 2004 to 4 January 2014.
4. These share options were granted on 9 August 2005 and are exercisable at a subscription price of HK\$0.102 per share at any time during the period of 10 years from 29 August 2005 to 8 August 2015.
5. These share options were granted on 6 February 2008 and are exercisable at a subscription price of HK\$0.114 per share at any time during the period of 10 years from 6 February 2008 to 5 February 2018.
6. These share options were granted on 24 June 2009 and are exercisable at a subscription price of HK\$0.123 per share at any time during the period of 4 years from 24 June 2009 to 11 June 2013.
7. These share options were granted on 10 July 2009 and are exercisable at a subscription price of HK\$0.185 per share at any time during the period of 3 years and 11 Months from 10 July 2009 to 11 June 2013.
8. These share options were granted on 17 November 2009 and are exercisable at a subscription price of HK\$0.295 per share at any time during the period of 3 years and 7 months from 17 November 2009 to 11 June 2013.

9. These share options were granted on 15 April 2010 and are exercisable at a subscription price of HK\$0.368 per share at any time during the period of 3.16 years from 15 April 2010 to 11 June 2013. The fair value of these share options at the date of grant was amounted to HK\$8.28 million.

Fair value of share options granted on 15 April 2010 and assumptions:

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on Binomial Option Pricing Model.

	measurement date
	15/04/2010
Fair value	HK\$0.13803
Exercise price	HK\$0.368
Expected volatility	112.42%
Life of the Share Option	3.16 years
Risk-free interest rate	1.336%

For the purpose of determining the value of the share options, we have considered all the prominent factors affecting the value, including, but not limited to, the following:

- The relative rate at which the price of the underlying security moves up and down;
- The change in the value of an option for each dollar change in the market price of the underlying asset;
- The change in the option's price for a 1% change in volatility;
- The exercise price of the share options granted;
- The nature of the share options granted;
- The exercisable period of the share options granted;
- The expected dividend yield of the underlying securities; and
- Other factors materially affecting the value of the share option granted.

The option value varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of its fair value. The Company takes no responsibilities for the information of option value provided.

PURCHASE, SALES OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the period, the Company had complied with the code provisions and certain recommended best practices set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 to the Listing Rules, except for the following deviations:

(i) Code Provision A2.1

Pursuant to code A2.1 of the CG Code, the role of chairman and chief executive officer should be separate and should not be performed by the same individual.

Dr. Yeung Yung, the chairman of the Company and an executive Director, had acted as the chief executive officer of the Company from 23 March 2009 to 22 June 2010.

During such period, the temporary management structure did not impair the balance of power and authority of the Board and the Board's decision had been effectively carried out under the leadership of Dr. Yeung.

For maintaining a higher standards of corporate governance, the roles of the chairman and the chief executive officer has been segregated since the appointment of Dr. Wang Chuantao as the chief executive officer of the Company with effect from 23 June 2010 to comply with code A 2.1 of the CG Code.

(ii) Code Provision E1.2

Pursuant to code E1.2 of the CG Code, the chairman of the Board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (collectively the "Committees") (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should be available to answer questions at any general meeting to approve a connected transaction or any transaction that is subject to independent shareholders' approval.

The chairman of the Board and the chairman of the Committees could not attend the annual general meeting ("AGM") of the Company held on 9 June 2010 due to business matters. Mr. Hui Wing Sang Wilson, being one of the executive Directors and the delegate appointed by the chairman of the Board and the chairman of the Committees, attended the AGM to ensure effective communication with the shareholders of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct governing securities transactions by the Directors. After specific enquiry of all Directors, all Directors confirmed to the Company their compliance with the required standards set out in the Model Code for the six months ended 30 June 2010.

AUDIT COMMITTEE

The audit committee (“Audit Committee”) of the Company has reviewed and discussed with management of the Company the accounting principles and practices adopted by the Group, internal controls and financial reporting matters. The Audit Committee has also reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2010.

By Order of the Board

Yeung Yung
Chairman

Hong Kong, 31 August 2010