中国安芯控股有限公司
Anxin-China Holdings Limited

Formerly known as Broad Intelligence International Pharmaceutical Holdings Limited
Incorporated in the Cayman Islands with limited liability
Stock Code: 1149

中國安芯 安心中國

Anxin-China,
your safety is our business

Interim Report 2011

The board of directors (the "Board") of Anxin-China Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011, together with comparative figures for the corresponding period in 2010.

These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's Audit Committee.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	NOTES	**30/06/11** ***HK$'000*** **(Unaudited)**	30/06/10 *HK$'000* (Unaudited) (Restated)
Continuing operations			
Revenue		**279,267**	149,861
Cost of sales		**(29,839)**	(20,887)
Gross profit		**249,428**	128,974
Other income		**36,189**	18,599
Other gains		**3,601**	–
Distribution and selling expenses		**(1,699)**	(14,257)
Administrative expenses		**(39,083)**	(6,282)
Research and development expenses		**(6,514)**	(6,920)
Finance costs		**(9,504)**	(34,638)
Profit before tax		**232,418**	85,476
Income tax expense	*6*	**(5,542)**	(195)
Profit for the period from continuing operations	*7*	**226,876**	85,281
Discontinued operations			
Profit for the period from discontinued operations		**–**	1,100
Profit for the period		**226,876**	86,381
Other comprehensive income			
Exchange differences arising on translation		**15,644**	3,393
Total comprehensive income for the period		**242,520**	89,774

	NOTES	30/06/11 HK$'000 (Unaudited)	30/06/10 HK$'000 (Unaudited) (Restated)
Profit for the period attributable to:			
Owners of the Company		**226,876**	86,381
Total comprehensive income for the period attributable to:			
Owners of the Company		**242,520**	89,774
EARNINGS PER SHARE	*9*		
From continuing and discontinued operations			
– Basic *(HK cents)*		**9.75**	7.17
– Diluted *(HK cents)*		**8.72**	4.79
From continuing operations			
– Basic *(HK cents)*		**9.75**	7.08
– Diluted *(HK cents)*		**8.72**	4.75

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	NOTES	30/06/11 HK$'000 (unaudited)	31/12/10 HK$'000 (audited)
Non-current Assets			
Property, plant and equipment	10	**117,466**	18,300
Prepayment for acquisition of non-current assets	10	**–**	96,530
Goodwill		**1,040,427**	1,040,427
Other intangible assets		**97,623**	115,332
		1,255,516	1,270,589
Current Assets			
Inventories		**1,770**	1,925
Trade and other receivables	11	**204,194**	89,717
Bank balances and cash		**922,060**	400,322
		1,128,024	491,964
Current Liabilities			
Trade and other payables	12	**24,828**	26,344
Tax liabilities		**11,014**	9,111
Borrowings	13	**–**	20,483
		35,842	55,938
Net Current Assets		**1,092,182**	436,026
Total Assets less Current Liabilities		**2,347,698**	1,706,615

	NOTES	30/06/11 HK$'000 (unaudited)	31/12/10 HK$'000 (audited)
Capital and Reserves			
Share capital	15	**259,254**	207,975
Share premium and reserves		**2,016,423**	1,297,521
Equity attributable to owners of the Company		**2,275,677**	1,505,496
Total Equity		**2,275,677**	1,505,496
Non-current Liabilities			
Deferred tax liabilities	14	**15,966**	17,689
Convertible notes	18	**56,055**	183,430
		72,021	201,119
		2,347,698	1,706,615

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Convertible notes reserve HK$'000	Warrant reserve HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	General reserve HK$'000	Special reserve HK$'000	Share option reserve HK$'000	Translation reserve HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
At 1 January 2010 (audited)	100,430	297,109	–	–	–	20,416	33,955	19,608	–	76,121	(200,792)	346,847
Restatement	–	66,943	422,116	–	–	–	–	–	–	–	6,645	495,704
At 1 January 2010 (audited)	100,430	364,052	422,116	–	–	20,416	33,955	19,608	–	76,121	(194,147)	842,551
Profit for the period	–	–	–	–	–	–	–	–	–	–	86,381	86,381
Other comprehensive income for the period	–	–	–	–	–	–	–	–	–	3,393	–	3,393
Total comprehensive income for the period	–	–	–	–	–	–	–	–	–	3,393	86,381	89,774
Issue of shares on conversion of convertible notes	45,698	261,138	(128,793)	–	–	–	–	–	–	–	–	178,043
At 30 June 2010 (unaudited)	146,128	625,190	293,323	–	–	20,416	33,955	19,608	–	79,514	(107,766)	1,110,368
At 1 January 2011 (audited)	**207,975**	**997,751**	**121,838**	**25,172**	**14,911**	**–**	**–**	**19,608**	**–**	**13,108**	**105,133**	**1,505,496**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**226,876**	**226,876**
Other comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15,644**	**–**	**15,644**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15,644**	**226,876**	**242,520**
Issue of new shares on exercise of warrants	**6,500**	**73,354**	**–**	**(650)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**79,204**
Issue of shares on conversion of convertible notes	**30,769**	**192,470**	**(86,718)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**136,521**
Proceeds from exercise of warrants	**–**	**–**	**–**	**(24,304)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(24,304)**
Issue of new shares	**14,010**	**296,942**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**310,952**
Issue of share option	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**25,288**	**–**	**–**	**25,288**
At 30 June 2011 (unaudited)	**259,254**	**1,560,517**	**35,120**	**218**	**14,911**	**–**	**–**	**19,608**	**25,288**	**28,752**	**332,009**	**2,275,677**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	30/06/11	30/06/10
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
		(Restated)
NET CASH FROM OPERATING ACTIVITIES	**184,013**	94,147
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(18,293)**	47,479
NET CASH FROM (USE IN) FINANCING ACTIVITIES	**345,369**	(5,693)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**511,089**	135,933
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**400,322**	92,329
Effects of foreign exchange rate changes	**10,649**	1,239
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	**922,060**	229,501

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1. GENERAL

The Company is a public limited company incorporated in Cayman Islands on 16 April 2003 and its shares are listed on the Stock Exchange of Hong Kong Limited with effect from 24 November 2003. The addresses of the registered office and principal place of business of the Company are P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and Units 2001-2005, 20th Floor, Harbour Centre, 25 Harbour Road, Wan Chai, Hong Kong respectively.

With effect from 3 August 2010, the name of the Company has been changed from "Broad Intelligence International Pharmaceutical Holdings Limited" to "Anxin-China Holdings Limited".

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

The principal activities of the Group are sale of system hardware and application software for installation of Intelligent Surveillance Disaster Alert & Rescue Coordination ("ISD") Systems and provision of system solutions services and investment holding.

On 6 August 2010, the Company has disposed its interests in Long Master International Limited ("Long Master") and Fujian Nanshaolin Pharmaceutical Co., Limited ("Fujian Nanshaolin"), which carried out all of the Group's Pharmaceutical manufacturing operations.

2. BASIS OF PREPARATION

The condensed consolidated 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 Limited (the Listing Rules) and with Hong Kong Accounting Standard 34 (HKAS 34).

3. RESTATEMENT OF PRIOR PERIOD FIGURES

Convertible Bonds

In 2010, the directors finalised the measurement of the fair value of the individual components of the Company's convertible notes (comprising the Company's redemption option, the holders' conversion option and the underlying loan component) issued in October 2009 for the acquisition of the entire share capital of Eagle Mascot Limited.

The convertible notes were measured based on amortised cost but were described as designated at fair value through profit or loss in the condensed interim consolidated financial statements for the period ended 30 June 2010. Accordingly, they are now described as financial liabilities measured at amortised cost and the fair value change of the convertible notes described as such in the condensed interim consolidated financial statements for the period ended 30 June 2010 are now described as imputed interest on convertible notes.

The finalisation of the measurements of the fair value have resulted in changes in fair values of the loan and equity components of the convertible notes as at the date of the acquisition and change in the amount of the related imputed interest expense for the period ended 30 June 2010. The amount of share premium has also been restated in respect of those convertible notes converted for the period ended 30 June 2010.

As the convertible notes were issued as part of the consideration for acquisition of Eagle Mascot Limited, the finalisation of the measurement of the fair value of the convertible notes has impact on amount of goodwill arising on the acquisition as well.

Recognition on the refundable income of value-added tax

The Company's subsidiaries, Shenzhen Anxin Digital Development Co., Ltd. ("Shenzhen Anxin") and Jiangsu Hongxin Intelligence Technology Co., Ltd. ("Jiangsu Hongxin") are entitled to a tax refund on value-added tax for the sales of ISD system. In prior period ended 30 June 2010, the Group did not recognized the refundable income of value-added tax due to the uncertainty for the refund. Subsequent to 30 June 2010, the refund of value-added tax was approved by the local tax bureaus and sundry income on the refundable income of value-added tax was recognized.

Reversal of income tax

Pursuant to an approval document issued by the Tax Bureau of Hongze, Jiangsu Province, which was received after 30 June 2010, the Company's subsidiary, Jiangsu Hongxin is qualified as a high-tech enterprise and entitles to EIT exemption for the years 2010 and 2011 and a 50% reduction in EIT for the years from 2012 to 2014. Therefore, income tax accrued by Jiangsu Hongxin in prior period is reversed accordingly.

Summary of the effects of prior period restatements:

The effects of the prior period restatements on the results for the prior period by line items are as follows:

	30/06/10 (originally stated) HK$'000	Restatements HK$'000	30/06/10 (restated) HK$'000
Other income	5,168	13,431	18,599
Finance costs	(1,173)	(33,465)	(34,638)
Fair value change of convertible notes	(17,812)	17,812	–
Income tax expense	(28,963)	28,768	(195)
Total effects on profit (loss) for the period	(42,780)	26,546	(16,234)

Impact on basic and diluted earnings per share

The effects of the above changes on the Group's basic and diluted earnings per share for the prior period are as follows:

	Impact on basic earnings per share HK cents	Impact on diluted earnings per share HK cents
Figures before restatements	4.97	3.72
Adjustments arising from prior period restatements	2.20	1.07
Figures after restatements	7.17	4.79

4. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

In the current period, the Group has adopted all of the new and revised standards, amendments and interpretations issued by the HKICPA that are relevant to the Group's operations and mandatory for accounting periods beginning 1 January 2011. The effect of the adoption of these new and revised standards, amendments and interpretations was not material to the Group's results of operations or financial position.

The Group has not early applied the following new and revised Standards and Interpretation that have been issued but are not yet effective.

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
HKFRS 9	Financial Instruments[2]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[3]
HKAS 19 (Revised 2011)	Employee Benefits[2]
HKAS 27 (Revised 2011)	Separate Financial Statements[2]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]

[1] *Effective for annual periods beginning on or after 1 July 2011*

[2] *Effective for annual periods beginning on or after 1 January 2013*

[3] *Effective for annual periods beginning on or after 1 January 2012*

[4] *Effective for annual periods beginning on or after 1 July 2012*

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The application of HKFRS 10 might result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, there are two types of joint arrangements: joint ventures and joint operations. The classification in HKFRS 11 is based on parties' rights and obligations under the arrangements. In contrast, under HKAS 31, there are three different types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting. The application of HKFRS 11 might result in changes in the classification of the Group's joint arrangements and their accounting treatments. Specifically, the Group's jointly controlled entities that are currently accounted for using the equity method of accounting would be classified as joint operations and accounted for in accordance with HKFRS 11.

The directors of the Company anticipate that the application of these new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

5. SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

With the disposal of the Group's Pharmaceutical business of manufacturing, sale, and research and development of pharmaceutical products on 6 August 2010, the Group focuses only on the "Intelligent Surveillance Disaster Alert & Rescue Coordination ("ISD") Systems" operations (which is made up of the sale of system hardware and application software for installation of Intelligent Surveillance Disaster Alert & Rescue Coordination Systems and provision of system solutions services). The prior period results of the Pharmaceutical business as discontinued operations are disclosed as a separate line on the face of condensed consolidated statement of comprehensive income. Therefore, the Group only has one operating segment in its continuing operations, and no information of segment results and segment assets and liabilities is disclosed for the current period ended 30 June 2011.

Geographical information

The directors of the Group consider that the Group's total consolidated revenue and substantial consolidated results are attributable to the market in the PRC in the period and that the Group's consolidated assets are substantially located inside the PRC. Accordingly, no geographical information is presented.

Information about major customers

Included in revenues arising from sales of application software and system hardware of HK$260.19 million (six months ended 30 June 2010: HK$131.25 million) are revenues of approximately HK$132.68 million (six months ended 30 June 2010: Nil) which arose from sales to the Group's largest customer. Revenue from this largest customer of the Group contributed over 48% to the Group's revenue for the period.

The operation of the Group has no seasonality or cyclicality.

6. INCOME TAX EXPENSE

	30/06/11	30/06/10
	HK$'000	*HK$'000*
Continuing operations		
Current tax:		
PRC Enterprise Income Tax	**7,265**	1,970
	7,265	1,970
Deferred tax:		
Current period *(note 14)*	**(1,723)**	(1,775)
	(1,723)	(1,775)
	5,542	195

The Company and those subsidiaries established in the British Virgin Islands are exempted from payment of income tax.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the period (six months ended 30 June 2010: Nil).

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC entities is 25% from 1 January 2008 onwards.

According to the Implementation Guidance, there will be a transitional period of five years for the Company's PRC subsidiaries located in Shenzhen Special Economic Zone whereby the applicable income tax rate will be progressively increased to 18%, 20%, 22%, 24% and 25% for the years 2008, 2009, 2010, 2011 and 2012 respectively.

The applicable income tax rates of the Company's subsidiary Shenzhen An-xin Digital Development Co., Ltd. ("An-xin") are 22% and 24% for the period ended 30 June 2010 and the period ended 30 June 2011 respectively.

Pursuant to an approval document dated 25 June 2010 issued by the Tax Bureau of Hongze, Jiangsu Province, the Company's subsidiary, Jiangsu Hong-xin Intelligence Technology Co., Ltd. ("Hong-xin") is qualified as a high-tech enterprise and entitles to EIT exemption for the years 2010 and 2011 and a 50% reduction in EIT for the years from 2012 to 2014.

7. PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS

Profit for the period from continuing operations has been arrived at after crediting (charging) the following items:

	30/06/11	30/06/10
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**4,397**	996
Amortisation of intangible assets (included in cost of sales)	**17,766**	17,752
Total depreciation and amortisation	**22,163**	18,748
Research and development costs recognised as an expense	**6,514**	6,920
Net foreign exchange gains	**3,609**	–
Employee benefits expense (including directors' emoluments):		
Post employment benefits		
Defined contribution plans	**81**	81
Other employee benefits	**573**	197
Total employee benefits expense	**654**	278
Cost of inventories recognised as an expense	**12,388**	3,135

8. DIVIDENDS

No dividends were paid, declared or proposed during the reporting period. The directors do not recommend the payment of an interim dividend.

9. EARNINGS PER SHARE

From continuing and discontinued operations

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

	30/06/11	30/06/10
	HK$'000	*HK$'000*
		(Restated)
Earnings		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	**226,876**	86,381
Effect of dilutive potential ordinary shares:		
Interest on convertible notes (net of tax)	**9,146**	33,465
Earnings for the purposes of dilutive earnings per share	**236,022**	119,846

	30/06/11	30/06/10
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,327,021**	1,204,328
Effect of dilutive potential ordinary shares:		
Convertible notes	**359,210**	1,297,725
Warrants	**19,190**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,705,421**	2,502,053

From continuing operations

The calculation of basic and diluted earnings per share from continuing operations attributable to the owners of the Company is based on the following data:

Earnings figures are calculated as follow:

	30/06/11	30/06/10
	HK$'000	*HK$'000*
		(Restated)
Profit for the period attributable to owners of the company	**226,876**	86,381
Less: Profit for the period from discontinued operations	**–**	1,100
Earnings for the purposes of calculating basic earnings per share from continuing operations	**226,876**	85,281
Effect of dilutive potential ordinary shares:		
Interest on convertible notes (net of tax)	**9,146**	33,465
Earnings for the purposes of calculating dilutive earnings per share from continuing operations	**236,022**	118,746

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operations

Basic earnings per share for the discontinued operations is HK0 cents per share (six months ended 30 June 2010: HK0.09 cents per share) and diluted earnings per share for the discontinued operations is HK0 cents per share (six months ended 30 June 2010: HK0.04 cents per share), based on the profit for the period from the discontinued operations of HK$0 (six months ended 30 June 2010: HK$1.10 million) and the denominators detailed above for both basic and diluted earnings per share.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

In 2010, the Group prepaid to a vendor for the acquisition of a property located in Hongze County of Jiangsu Province, at a consideration of RMB82,000,000 (equivalent to approximately HK$96,530,000). The vendor is a company which is indirectly and wholly controlled by two directors of An-xin. The transaction was approved at the extraordinary general meeting of the Company held on 21 February 2011, and then the Company recognised it as property, plant and equipment.

No property, plant and equipment was pledged as at 30 June 2011 as all bank borrowings have been repaid during the period.

11. TRADE AND OTHER RECEIVABLES

	30/06/11	31/12/10
	HK$'000	*HK$'000*
Trade receivables	**150,967**	66,100
Other receivables	**38,456**	11,673
Amount due from related parties *(note 17)*	**10**	10
Prepayments and deposits	**14,761**	11,934
	204,194	89,717

The Group allows an average credit period of 180 days and 90 days to its trade customers on application software & system hardware and solution service income respectively, while the retention monies held in relation to the application software are receivable 12 months after installation of software. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of reporting period.

	30/06/11	31/12/10
	HK$'000	*HK$'000*
0 – 30 days	**112,133**	9,496
31 – 60 days	**16**	15,381
61 – 90 days	**–**	14,843
91 – 180 days	**27,539**	20,261
181 – 365 days	**11,279**	2,505
Over 365 days	**–**	3,614
	150,967	66,100

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

Aging of trade receivables which are past due but not impaired

	30/06/11	31/12/10
	HK$'000	*HK$'000*
Overdue within 1-30 days	**–**	1,370

12. TRADE AND OTHER PAYABLES

	30/06/11	31/12/10
	HK$'000	*HK$'000*
Trade payables	**7,861**	796
Other payables	**2,876**	5,328
Other PRC tax payables	**11,673**	18,567
Amount due to related parties *(note 17)*	**2,167**	1,413
Advance from customers	**250**	239
Dividend payable	**1**	1
	24,828	26,344

The average credit period on purchase of goods is 90 days. The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	30/06/11	31/12/10
	HK$'000	*HK$'000*
0 – 30 days	**7,238**	160
31 – 60 days	**–**	–
61 – 90 days	**–**	12
91 – 180 days	**–**	122
181 – 365 days	**56**	–
Over 365 days	**567**	502
	7,861	796

13. BORROWINGS

The borrowings at 31 December 2010 were repaid during current period.

14. DEFERRED TAXATION

The following is the major deferred tax liability recognised and movement thereon during the current and prior periods:

	Intangible assets *HK$'000*
As at 1 January 2010	14,759
Credit to profit or loss	(1,775)
At 30 June 2010	12,984
Charge to profit or loss	4,705
At 31 December 2010	17,689
Credit to profit or loss	(1,723)
At 30 June 2011	15,966

As at 30 June 2011, the aggregate amount of taxable temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised amounted to HK$620,799,000 (31 December 2010: HK$302,459,000). No deferred tax liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

15. SHARE CAPITAL

	Number of shares *'000*	Share capital *HK$'000*
Ordinary shares of HK$0.1 each		
As at 1 January 2010	1,004,299	100,430
Issue of shares on conversion of convertible notes *(Note (a))*	456,985	45,698
As at 30 June 2010	1,461,284	146,128
As at 1 January 2011	2,079,746	207,975
Issue of shares on conversion of convertible notes *(Note (a))*	307,692	30,769
Issue of shares on exercise of warrants *(Note (b))*	65,000	6,500
Issue of new shares *(Note (c))*	140,100	14,010
As at 30 June 2011	2,592,538	259,254

(a) On 4 January 2010, 5 January 2010, 16 April 2010, 28 April 2010, 17 May 2010, 14 June 2010, the convertible notes in an aggregate principal amount of HK$33,540,400, HK$10,000,000, HK$130,000,000, HK$23,059,400, HK$97,500,000, HK$2,940,600, respectively were converted into the Company's shares at a conversion price of HK$0.65 per share. As a result of the conversion, 456,985,231 new shares were issued.

On 19 May 2011, the convertible note in an aggregate principal amount of HK$200,000,000 was converted into the Company's shares at a conversion price of HK$0.65 per share. As a result of the conversion, 307,692,308 new shares were issued.

(b) During current period, 65,000,000 warrants were exercised at a subscription price of HK$1.22 per share, resulting in the issue of 65,000,000 ordinary shares of HK$0.1 each.

(c) On 6 January 2011, the Vendor (a shareholder of the Company) and the Company entered into the Subscription and Placing Agreement with the Placing Agent, pursuant to which the Placing Agent have agreed, on a best efforts basis, to procure at least six investors to purchase, and the Vendor has agreed to sell, up to 150,000,000 existing shares at a price of HK$2.30 per Placing Share. Subject to completion of the Placing, the Vendor agrees to subscribe for and the Company agrees to allot and issue to the Vendor up to 150,000,000 new shares which are equal to the number of Placing Shares at a price of HK$2.30 per Subscription Share.

The placing and the subscription took place on 20 January 2011. A total of 140,100,000 Placing Shares has been successfully placed to not less than six independent investors at the Placing Price of HK$2.30 per Placing Share, and a total of 140,100,000 Subscription Shares of HK$0.1 each has been allotted and issued to the Vendor by the Company at the Subscription Price.

16. SHARE-BASED PAYMENTS

Equity-settled share option scheme of the Company

On 1 April 2011, the Company granted share options to eligible participants pursuant to a resolution. The table below discloses movement of the Company's share options held by the Group's eligible participants:

	Number of share options *'000*
Outstanding as at 1 January 2011	–
Granted during the period	37,000
Outstanding as at 30 June 2011	37,000

The closing price of the Company's shares immediately before 1 April 2011, the date of grant, was HK$2.22.

The fair value of the options determined at the date of grant using the Binomial model was HK$25,288,000, and was recognised as administrative expense in profit and loss.

The following assumptions were used to calculate the fair values of share options:

Grant date share price	HK$2.25
Exercise price	HK$2.25
Expected life	2.6 years
Expected volatility	47.08%
Dividend yield	0%
Risk-free interest rate	0.9638%

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

At the end of each reporting date, the Group revises its estimates of the number of options that are expected to vest ultimately. The impact of the revision of the estimates, if any, is recognised in profit and loss, with a corresponding adjustment to the share option reserve.

17. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

During the period, the Group entered into the following transactions with related parties:

	Lease		Prepayment to related parties for acquisition of property		Amounts due from related parties		Amounts due to related parties	
	30/06/11	30/06/10	**30/06/11**	31/12/10	**30/06/11**	31/12/10	**30/06/11**	31/12/10
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Related parties	**714**	689	**–**	96,530	**10**	10	**2,167**	1,413

Related parties represent the companies controlled by Chen Hong, who is key management of and the shareholder of the Company and a director of An-xin.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts due from related parties. The above amounts due from/to related parties are included in "trade and other receivables" and "trade and other payables" respectively.

Other related party transactions

At 31 December 2010, the bank loan of RMB20,000,000 (equivalent to approximately HK$22,964,400) with variable-rate borrowings was secured by a property of a related company, in which two directors of An-xin including Chen Hong have controlling interests.

Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	30/06/11	30/06/10
	HK$'000	*HK$'000*
Salaries, allowances and other short-term employee benefits	**765**	487
Contribution to retirement benefits schemes	**6**	6
	771	493

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

18. CONVERTIBLE NOTES

On 22 October 2009, the Company issued zero coupon convertible notes (the "Convertible notes") in an aggregate principal amount of HK$1,179,850,000 as consideration for the acquisition of Eagle Mascot Group. There were two tranches within the Convertible notes, HK$889,850,000 in principal amount of Tranche 1 Convertible notes and HK$290,000,000 in principal amount of Tranche 2 Convertible notes. Details of the Convertible notes were disclosed in the Company's annual report dated 29 March 2011.

On 19 May 2011, the convertible notes in an aggregate principal amount of HK$200,000,000 were converted into the Company's shares at a conversion price of HK$0.65 per share. As a result of the conversion, 307,692,308 new shares were issued.

The carrying amount movement of the liability component of the convertible notes for the period is set out below:

	30/06/2011	31/12/2010
	HK$'000	*HK$'000*
Carrying amount at the beginning of the period	**183,430**	564,354
Conversion to share capital	**(30,769)**	(106,545)
Conversion to share premium	**(105,752)**	(322,121)
Interest charge	**9,146**	47,742
Carrying amount at the end of the period	**56,055**	183,430

The principal amount movement of the convertible notes for the period is set out below:

	30/06/2011	31/12/2010
	HK$'000	*HK$'000*
Principal amount at the beginning of the period	**281,000**	973,540
Conversion to share capital	**(30,769)**	(106,545)
Conversion to share premium	**(169,231)**	(585,995)
Principal amount at the end of the period	**81,000**	281,000

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

With the continued expansion of the security and protection industry within China, the Group continued to record satisfactory results in the first half year of 2011. For the six months ended 30 June 2011, the consolidated turnover of the Group amounted to approximately HK$279,267,000 (for the six months ended 30 June 2010: HK$149,861,000), a significant increase of around 86% over the corresponding period last year. Gross profit margin was around 89% (for the six months ended 30 June 2010: 86%). Profit for the period was approximately HK$226,876,000 (for the six months ended 30 June 2010: HK$86,381,000), representing an increase of approximately 163% over the corresponding period last year. Basic earnings per share was HK9.75 cents (for the six months ended 30 June 2010: HK7.17 cents) and diluted earnings per share was HK8.72 cents (for the six months ended 30 June 2010: HK4.79 cents). Basic earnings per share after elimination of discontinued operations was HK9.75 cents (for the six months ended 30 June 2010: HK7.08 cents) and diluted earnings per share after elimination of discontinued operations was HK8.72 cents (for the six months ended 30 June 2010: HK4.75 cents).

Turnover from the ISD business and pharmaceutical business amounted to approximately HK$279,267,000 and HK$0 respectively for the six months ended 30 June 2011 (for the six months ended 30 June 2010: HK$149,861,000 and HK$27,340,000 respectively). The pharmaceutical business was disposed of on 6 August 2010 and contributed a profit after tax of HK$74,378,000 to the Group.

In respect of assets, liabilities and cash flow, total assets of the Group amounted to HK$2,383,540,000 as at 30 June 2011, (31 December 2010: HK$1,762,553,000), representing an increase of 35% as compared with 31 December 2010. The gearing ratio (total liabilities/total assets) was 5% as at 30 June 2011 (31 December 2010: 15%). As at 30 June 2011, the Group's total cash and bank balances amounted to HK$922,060,000 (31 December 2010: HK$400,322,000). Net cash inflow/(outflow) from operating activities, investing activities and financing activities amounted to HK$184,013,000, HK$(18,293,000) and HK$345,369,000 respectively (for the six months ended 30 June 2010: HK$94,147,000, HK$47,479,000 and HK$(5,693,000) respectively). During the period, capital expenditure amounted to HK$4,271,000 (for the six months ended 30 June 2010: HK$258,000), depreciation and amortization of tangible and intangible assets amounted to HK$22,163,000 (for the six months ended 30 June 2010: HK$18,748,000).

Industry Review

In respect of safety production in the Eleventh Five-Year Plan, the Central Government established the concept of safety production, implemented a series of significant measures to strengthen safety production work, and had achieved tangible progress in this direction. According to the report from China Security and Protection Industry Association, the total production value of China's Security and Protection Industry was approximately RMB234 billion in 2010, an annual growth rate of 23%, of which security and protection products amounted to approximately RMB100 billion.

However, the foundation of national safety production is still fragile and has not attained a fundamental turnaround within industry as a whole. Hence, the Twelfth Five-Year Plan ("Plan") with respect to safety production as put forward by the State Administration of Work Safety, clearly proposed the comprehensive development of a safety and protection industry. This includes the development of a safety equipment manufacturing industry focusing on the research and production of supervision, detection and control, safety hazard avoidance, security and protection, individual protection, disaster surveillance and control, dedicated safety facilities and emergency rescue equipment. All of these categories are to be included under the supporting scope of the national revitalisation policy within the equipment manufacturing industry.

China's security and protection industry is once again about to enter into a very important development stage. The Central Government is embarking on a series of programmes that includes building up a harmonious society, promoting the establishment of "safe cities" and implementing an "enhancement in technology" guideline. We believe that with the safety stipulation under the Twelfth Five-Year Plan, the potential of technological development would generate a dynamic growth, with digitalised municipal construction and internet-of-things security becoming new strong points of development. By the end of the Plan, it is visualised that China's security and protection industry is to achieve the overall target of doubling its production scale, with an annual growth rate of approximately 20%. Total production value would amount to RMB500 billion by 2015, realising an increase of RMB160 billion.

Business Review

During the period under review, the Group, as a leading enterprise in ISD systems within the PRC, continued to consolidate its leading position in the ISD sector, and expanded Anxin-China's monitoring centers and ISD system surveillance points. In the first half year of 2011, the Group set up two new monitoring centers in Fujian and Yunnan Provinces, and installed 3,342 new surveillance points in different regions, including Yunnan, Jilin, Fujian and Jiangsu, which include 81 surveillance points at coal mines and 3,261 multi-industry surveillance points.

As at 30 June 2011, the coverage of Anxin-China's ISD business had extended across provinces and cities throughout the PRC. It had set up ISD monitoring centers at 22 coal mines and seven multi-industry ISD monitoring centers, as well as incorporating 4,840 surveillance points at coal mines and 4,995 multi-industry surveillance points, for a total of 9,835 surveillance points covering seven categories of the 31 ISD system applications in eight provinces of China. Anxin-China had gained 40% and 100% market share respectively in coal mine surveillance and multi-industry surveillance sectors. In order to further expand the business coverage of the Group, it has commenced the second phase of monitoring works within the provinces where it has systems installed.

Mr. Liu Zhongkui was appointed as Chief Executive Officer of the Company with effect from 3 June 2011. Since joining the Group, Mr. Liu has already led our team to successfully implement numerous projects. We believe that Mr. Liu can continue the expansion of the Group's scale of business, and contribute solid achievements to the development of China's security and protection industry.

PROSPECT AND OUTLOOK

Policy Support

With the launching of the Twelfth Five-Year Plan guideline by the Chinese Government, municipal and industry safety issues are of wide concern by the Government. Both the security industry and "internet-of things" segment in which the Group operates have already been included in the Plan as key enabling industries. The initiation and facilitation of the concepts of "safe cities" and "intelligent cities" had provided strong policy support for the business development of the Group. The ISD systems of the Group are aiding the government to make outstanding contributions to the improvement of municipal safety and a civic sense of community.

With 2011 the inaugural year of the Twelfth Five-Year Plan, Anxin-China has already achieved encouraging development in its ISD systems business. With the solid support of the Chinese Government in the security and "internet-of-things" industries, the Group is confident that its business operations will also expand continuously. Currently, the number of surveillance points in China with an installed ISD system accounted for less than 1% of the total surveillance points envisaged. As a result, the ISD system market is likely to enjoy exponential growth in the future. As the largest ISD system provider for coal mines and the only multi-industry ISD system provider in China, we believe Anxin-China has enormous growth potential in the future.

Development Strategy

Anxin-China has already seized the early opportunities in 2010 and 2011 to set up its Eastern China base in Jiangsu, and has set up ISD system monitoring centres in different provinces and cities in Yunnan, Guizhou, Sichuan, Heilongjiang, Jiangsu, Jilin, Fujian and Guangdong provinces. Anxin-China plans to further expand its domestic sales and marketing network, and increase the number of surveillance points for the purpose of rapidly expanding its scale of business, thereby broadening its market coverage.

As the only multi-industry ISD system solution provider licensed by the Chinese Government, the Group is continuing to expand its surveillance points into 31 categories of origins of peril as stipulated by the State Administration of Work Safety. Anxin-China also continues in-depth cooperation with the respective Government departments to expand its business network to other provinces and municipalities. At the same time, the Group is actively promoting the incorporation of relevant surveillance points, providing more comprehensive and intelligent surveillance and alert and emergency rescue solutions as well as after-sales maintenance. The Group is also actively seeking vertical integration opportunities in the industry through the acquisition of suitable industry chain enterprises for expanding its business scale and enhancing its overall efficiency.

Looking ahead, the Group continues to be committed to its security production business, with an aim to establish a world-class enterprise in intelligent security warning systems and consolidate its leading market position. We will contribute to the development of the safety production industry in China, and to achieving our forward vision "Anxin-China, Your Safety is Our Business".

Dividend

The Board did not recommend the payment of interim dividend for the six months ended 30 June 2011.

Contingent Liabilities

As at 30 June 2011, the Group and the Company did not have any significant contingent liabilities (2010: nil).

Events after the Reporting Period

Pursuant to the repurchase mandate granted to the Board at the annual general meeting of the Company held on 3 June 2011 (the "Repurchase Mandate"), the Company acquired an aggregate of 5,940,000 of its own shares during July 2011, at the highest and lowest price of HK$1.83 and HK$1.67 respectively through purchases on the Stock Exchange at an aggregate consideration of HK$10,283,280.

All the 5,940,000 shares repurchased were cancelled on delivery of the share certificates on 19 August 2011. The issued share capital of the Company was accordingly reduced by the par value of the repurchased shares so cancelled.

Employees and Remuneration Policy

As at 30 June 2011, the Group had a total of 229 employees (2010: 326 employees). The Group regularly reviews the remuneration and benefits of employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including the staff provident fund scheme and the discretionary bonus scheme.

RETIREMENT SCHEME

The Group provides retirement benefits to its staff. The retirement contributions paid by the Group are based on certain percentage of the relevant portion of the payroll of all qualifying employees in accordance with the relevant regulations in the PRC and are charged to the income statement as incurred. The contributions paid for the six months ended 30 June 2011 and 30 June 2010 was approximately HK$147,000 and HK$504,000 (including the amounts for continuing operations and discontinued operations) respectively. The Group has made adequate provision in the financial statements in respect of the benefit schemes. In addition, the Group also provides housing and food allowances to its staff. In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong. All Hong Kong based employees and the Group are required to contribute 5% of the monthly wages of individual employees respectively (up to a maximum contribution of HK$1,000 by each of the employee and the Group) on a monthly basis to the fund.

DIRECTORS' INTEREST IN SHARE CAPITAL

As at 30 June 2011, the interests of the Directors in the Share Capital of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI were as follows:

Director	No. of Shares Held		Percentage of Interest
	Personal interest	Corporate interest	
Zhong Houtai	–	211,720,000 *(Notes 1, 2, 3)*	8.167%
Liu Zhongkui	6,572,000	–	0.253%

Notes:

1. The shares are registered under the name of Elite Achieve Limited.

2. The entire issued share capital of Elite Achieve Limited is legally and beneficially owned by Mr. Zhong Houtai.

3. Under the Securities and Futures Ordinance, Mr. Zhong Houtai is deemed to be interested in all the shares registered in the name of Elite Achieve Limited.

4. The percentage has been calculated based on the total number of 2,592,537,458 ordinary shares of the Company in issue as at 30 June 2011.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the share capital or debt securities of the Company or any of its associated corporations as defined in the SDI.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the section headed "Directors' Interests in Share Capital" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial interest, either direct or indirect, in any significant contract to which the Company, its holding company or any of its subsidiaries was a party at the balance sheet date or at any time during the period ended 30 June 2011.

SHARE OPTION SCHEME

On 3 November 2003, the shareholders of the Company approved the adoption of a share option scheme (the "Share Option Scheme"). The Share Option Scheme will expire on 2 November 2013. 37,000,000 share options were granted at an exercise price of HK$2.25 per share and no share options were exercised during the period under review and the share option cost that was charged to the income statement was approximately HK$25,288,000 (six months ended 30 June 2010: approximately HK$Nil). Based on the existing outstanding number of share options as of 30 June 2011 and assume that no further share options are to be granted in the six months to 31 December 2011, no further share option cost will be charged to the income statement as share option expense.

Movements of the options, which were granted under the Share Option Scheme, during the period under review were listed below:

Category	Date of grant	Number of option shares held as at 01/01/2011	Number of option shares granted during the period	Number of option shares exercised during the period	Number of option shares lapsed during the period	Number of option shares held as at 30/06/2011	Exercise price HK$	Exercise period
Employee	1 April 2011	–	3,750,000	–	–	3,750,000	2.25	01/04/2011 – 02/11/2013
Consultants	1 April 2011	–	33,250,000	–	–	33,250,000	2.25	01/04/2011 – 02/11/2013
		–	37,000,000	–	–	37,000,000		

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2011, the following persons or companies (other than the Directors and chief executives) had interest or short positions in the shares or underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO and were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group were as follow:

Name of substantial shareholder	Capacity in which shares were held	Number of shares	Number of underlying shares	Total	Approximate percentage of shareholding
Yang Kezhi	Interest of controlled corporation *(Note 3)*	131,000,000	0	131,000,000	5.05%
Golden Bright Holdings Limited	Beneficial owner and Interest of controlled corporation *(Note 3)*	131,000,000	0	131,000,000	5.05%
Chen Hong	Interest of controlled corporation *(Note 4)*	210,000,000	0	210,000,000	8.10%
Jin Yong Investments Limited	Beneficial owner *(Note 4)*	210,000,000	0	210,000,000	8.10%
Wang Huiru	Interest of controlled corporation *(Note 5)*	131,932,000	0	131,932,000	5.09%
Top Service Holdings Limited	Beneficial owner *(Note 5)*	131,932,000	0	131,932,000	5.09%

Notes:

1. The above are all long positions in the ordinary shares of the Company.

2. On 22 October 2009, the Company issued convertible notes (the "Convertible Notes") in an aggregate principal amount of HK$1,179,850,000. There were two tranches within the Convertible Notes, HK$889,850,000 in principal amount of tranche 1 Convertible Notes and HK$290,000,000 in principal amount of tranche 2 Convertible Notes. The issue of the Convertible Notes is used for the acquisition of Shenzhen Anxin. The Convertible Notes, with maturity date of 22 October 2014, are convertible into shares at a conversion price of HK$0.65 per share during the conversion period. During the period under review, an equivalent amount of HK$200,000,000 tranche 1 Convertible Notes have been converted into ordinary shares of the Company. As at 30 June 2011, the equivalent amount of the remaining balance of tranche 1 Convertible Notes and tranche 2 Convertible Notes are HK$Nil and HK$81,000,000 respectively.

3. Golden Bright Holdings Limited is holding 131,000,000 shares, of which 76,000,000 shares are held by Talent Eagle Holdings Limited. The entire share capital of Talent Eagle Holdings Limited is legally and beneficiary owned by Golden Bright Holdings Limited and the entire share capital of Golden Bright Holdings Limited is legally and beneficiary owned by Yang Kezhi. Therefore, Yang Kezhi is deemed to be interested in the 131,000,000 shares held by Golden Bright Holdings Limited and Talent Eagle Holdings Limited under the SFO.

4. The entire share capital of Jin Yong Investments Limited is legally and beneficiary owned by Chen Hong. Therefore, Chen Hong is deemed to be interested in the 210,000,000 shares held by Jin Yong Investments Limited under the SFO.

5. The entire share capital of Top Service Holdings Limited is legally and beneficiary owned by Wang Huiru. Therefore, Wang Huiru is deemed to be interested in the 131,932,000 shares held by Top Service Holdings Limited under the SFO.

6. The percentage has been calculated based on the total number of 2,592,537,458 ordinary shares of the Company in issue as at 30 June 2011.

Save as disclosed above, as at 30 June 2011, the Directors are not aware of any other person (other than the Directors, whose interests are set out in the paragraph headed "Directors' Interest in Share Capital"), had an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register kept by the Company under Part XV of section 336 of the SFO.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or is existing during the six months ended 30 June 2011.

CONNECTED AND RELATED PARTY TRANSACTIONS

During the period ended 30 June 2011, except for those disclosed in note 17 to the financial statements, the Group had no transactions with related or connected parties.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2011.

CORPORATE GOVERNANCE

Corporate governance practices

The Group is committed to achieving high standards of corporate governance to safeguard the interests of all shareholders and to enhance corporate value and accountability. Throughout the period ended 30 June 2011, the Group has applied the principles and complied with most of the code provisions and recommended best practices prescribed in the Code on Corporate Governance Practices ("CG Code") set out in the Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The following describes the Company's corporate governance practices, explains the applications of the principles of the CG Code and deviations, if any.

None of the directors is aware of any information that would reasonably indicate that the Company or any of its directors were not in compliance with the Model Code or the CG Code at any time for the period ended 30 June 2011. In the opinion of the Board, the Company had fully complied with the provisions as provided under the Corporate Governance Code during the interim period except as indicated below. In order to be in compliance with the provisions as provided under the Corporate Governance Code, the Company established an audit committee and a remuneration committee.

Code Provision A2.1

According to the code provision A2.1 of the CG Code, the roles of the chairman and the chief executive officer should be segregated. However, the Company has no chief executive officer during the period from 1 January 2011 to 2 June 2011. Mr. Zhong Houtai is the chairman and executive Director of the Company responsible for the Group's operations in the PRC. The responsibility of that of a chief executive officer is taken up by the chairman of the Company. In order to better comply with the code provision and enhance the corporate governance of the Company, Mr. Liu Zhongkui has been appointed as an executive Director and as a chief executive officer of the Company on 3 June 2011.

Code Provision A4.1

According to the code provision A4.1 of the CG Code, independent non-executive directors should be appointed for a specific term of service. However, independent non-executive Directors of the Company are not appointed for a specific term as required under the CG Code, but they are subject to retirement by rotation and re-election at the annual general meeting of the Company at least once for every three years according to the articles of association of the Company. Such practice meets the same objective and is no less exacting than those prescribed under the code provision A4.1 of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors, the Company confirmed that in respect of the six months ended 30 June 2011, all Directors had complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The audit committee is established with written terms of reference in compliance with the CG Code. The audit committee has three members, including the Company's three independent non-executive Directors, namely Mr. Pei Renjiu, Mr. Xie Baitang and Mr. Cheung Chuen. Mr. Cheung Chuen is the chairman of the committee. The duties of the audit committee are to review the Company's annual report and accounts, interim reports and to provide advice and comments thereon to the Board. In addition, the audit committee will consider any significant and unusual items that are, or may need to be reflected in such reports and accounts and must give due consideration to any matter that has been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer and auditors. The audit committee is also responsible for reviewing and supervising the financial reporting process and the internal control system of the Group including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. Besides, the audit committee will make recommendations to the Board on matters regarding the appointment of external auditors and auditing fee etc. Every year, the audit committee meets with external auditors of the Company to discuss the annual audit plan. 2 meetings were held during the current period including to review the unaudited financial statements for the six months ended 30 June 2011.

NOMINATION COMMITTEE

According to the CG Code, the Company shall set up a nomination committee with a majority of the members thereof being independent non-executive directors. However, the Company did not establish a nomination committee. The process and criteria adopted by the Board to select and recommend candidates for directorship are based on assessment of their professional qualifications and experience. The Board is responsible for determining the independence of each Director and conducting formal assessment of the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board.

REMUNERATION COMMITTEE

The remuneration committee is established with a defined terms of reference in consistence with the CG Code and it is available from the Company Secretary at any time. The duties of the remuneration committee includes making recommendations with respect to the remuneration of the executive Directors for approval by the Board, reviewing and recommending salaries, bonuses, merit plans, reward and recognition strategies, including the appropriation of funds for incentive awards for Directors, and administering and making determinations with regard to the Company's share option scheme.

The remuneration committee is led by Mr. Xie Baitang, an independent non-executive Director. Member of the remuneration committee includes Mr. Pei Renjiu and Mr. Cheung Chuen, both are independent non-executive Directors.

APPRECIATION

I would like to take this opportunity to extend my deepest gratitude to the Directors and staff as a whole for their immense contribution, dedication and diligence during the period.

By order of the board
Zhong Houtai
Chairman

24 August 2011

As at the date of this report, the executive directors of the Company are Mr. Zhong Houtai, Mr. Zhong Houyao, Mr. Lin Supeng, Mr. Yang Ma and Mr. Liu Zhongkui and the independent non-executive directors of the Company are Mr. Cheung Chuen, Mr. Pei Renjiu and Mr. Xie Baitang.