CHINA NEW ENERGY POWER GROUP LIMITED
中國新能源動力集團有限公司

*(Incorporated in Bermuda with limited liability)*

Stock Code：1041

# INTERIM REPORT 2012

# CONTENTS



# CORPORATE INFORMATION

## DIRECTORS

### *Executive Directors*

Mr. Ip Cheng Kuong *(Chairman)*
Mr. Zhang Xi
*(Joint Chairman, resigned on 21 May 2012)*
Ms. Catherine Chen
*(Managing Director)*
Mr. Chiu Kong
Mr. Yeung Kwok Yu
Mr. Fei Phillip
*(Vice Chairman, resigned on 30 April 2012)*
Mr. Yeung Tsoi San
*(Chief Executive Officer, removed as Chief Executive Officer and Director on 4 July 2012 and 12 July 2012 respectively)*
Mr. Kwan Kam Hung, Jimmy
Mr. Wah Wang Kei, Jackie
Mr. Chen Guang Lin

### *Non-executive Directors*

Mr. Wu Zhuo Tong
*(appointed on 28 May 2012)*

### *Independent Non-executive Directors*

Ms. Ma Yin Fan
Mr. Leung Hoi Ying
Mr. Yu Pan

## BOARD COMMITTEES

### *Audit Committee*

Ms. Ma Yin Fan *(Chairlady)*
Mr. Leung Hoi Ying
Mr. Yu Pan

### *Remuneration Committee*

Ms. Ma Yin Fan *(Chairlady)*
Mr. Leung Hoi Ying
Mr. Yu Pan
Mr. Zhang Xi *(resigned on 21 May 2012)*

### *Nomination Committee*

Mr. Leung Hoi Ying *(Chairman)*
Mr. Yu Pan
Mr. Yeung Kwok Yu

## COMPANY SECRETARY

Mr. Tang Kam Shing, Roland

## AUDITOR

Deloitte Touche Tohmatsu
*Certified Public Accountants*

## LEGAL ADVISER

Messrs. Tung & Co.

## REGISTERED OFFICE

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2 Church Street
Hamilton HM11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

2807, 28th Floor
The Center
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Central
Hong Kong

## PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716
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183 Queen's Road East
Hong Kong

## STOCK CODE

1041

## WEBSITE

www.cnepgl.com

The board of directors (the "Board") of China New Energy Power Group Limited (the "Company") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2012.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 June 2012*

| | Notes | Six months ended 30 June<br>**2012**<br>***HK$'000***<br>**(Unaudited)** | <br>2011<br>*HK$'000*<br>(Unaudited) |
|---|---|---|---|
| **Continuing operations** | | | |
| Turnover | | **–** | – |
| Other income | 7 | **610** | 181 |
| Other gains and losses | 8 | **102,757** | (482,671) |
| Administrative expenses | | **(16,527)** | (25,473) |
| Other expenses | 9 | **–** | (23,000) |
| Finance costs | | **(13,547)** | (17,673) |
| Profit (loss) for the period from continuing operations | 9 | **73,293** | (548,636) |
| **Discontinued operation** | | | |
| Loss for the period from discontinued operation | 6 | **–** | (60,007) |
| Profit (loss) for the period | | **73,293** | (608,643) |
| **Other comprehensive (expense) income** | | | |
| Exchange differences arising on translation to presentation currency | | **(868)** | 38,134 |
| Total comprehensive income (expense) for the period | | **72,425** | (570,509) |
| Profit (loss) for the period attributable to: | | | |
| Owners of the Company | | | |
| – from continuing operations | | **74,499** | (546,463) |
| – from discontinued operation | | **–** | (40,439) |
| | | **74,499** | (586,902) |

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 June 2012*

| | Notes | Six months ended 30 June<br>**2012**<br>***HK$'000***<br>**(Unaudited)** | <br>2011<br>*HK$'000*<br>(Unaudited) |
|---|---|---|---|
| Non-controlling interests | | | |
| – from continuing operations | | **(1,206)** | (2,173) |
| – from discontinued operation | | **–** | (19,568) |
| | | **(1,206)** | (21,741) |
| | | **73,293** | (608,643) |
| Total comprehensive income (expense) attributable to: | | | |
| Owners of the Company | | **73,824** | (551,021) |
| Non-controlling interests | | **(1,399)** | (19,488) |
| | | **72,425** | (570,509) |
| Earnings (loss) per share | 10 | | |
| From continuing and discontinued operations | | | |
| – basic | | **HK1.227 cents** | HK(12.859) cents |
| – diluted | | **HK(0.036) cent** | HK(12.859) cents |
| From continuing operations | | | |
| – basic | | **HK1.227 cents** | HK(11.973) cents |
| – diluted | | **HK(0.036) cent** | HK(11.973) cents |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2012*

| | Notes | **30.6.2012 *HK$'000* (Unaudited)** | 31.12.2011 *HK$'000* (Audited) |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 12 | **3,770** | 4,118 |
| Prepaid lease payments | | **5,155** | 5,230 |
| Other investments | | **–** | – |
| Club debenture | | **–** | – |
| | | **8,925** | 9,348 |
| Current assets | | | |
| Properties under development | | **626,056** | 576,810 |
| Other receivables | 13 | **15,419** | 25,297 |
| Deposits and prepayments | | **8,720** | 7,796 |
| Held-for-trading investments | 14 | **30,866** | 43,178 |
| Bank balances and cash | | **6,854** | 30,226 |
| | | **687,915** | 683,307 |
| Current liabilities | | | |
| Trade and other payables | 15 | **67,346** | 52,144 |
| Amounts due to directors of subsidiaries | 16 | **–** | 4,388 |
| Amounts due to non-controlling shareholders of subsidiaries | | **24,475** | 32,057 |
| Obligation under finance lease | | **39** | 77 |
| Convertible notes | 17 | **82,958** | 595,797 |
| Other borrowings – amount due within one year | 18 | **–** | 1,523 |
| | | **174,818** | 685,986 |
| Net current assets (liabilities) | | **513,097** | (2,679) |
| | | **522,022** | 6,669 |
| Capital and reserves | | | |
| Share capital | 19 | **59,223** | 35,465 |
| Reserves | | **241,173** | (244,149) |
| Equity (capital deficiency) attributable to owners of the Company | | **300,396** | (208,684) |
| Non-controlling interests | | **221,626** | 215,353 |
| | | **522,022** | 6,669 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2012*

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital reserve | General reserve | Exchange translation reserve | Share option reserve | Capital redemption reserve | Accumulated losses | Subtotal | Non-controlling interests | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2012 (audited) | 35,465 | - | 4,289 | 225 | 2,111 | - | 34 | (250,808) | (208,684) | 215,353 | 6,669 |
| Exchange difference arising on translation of functional currency to presentation currency | - | - | - | - | (675) | - | - | - | (675) | (193) | (868) |
| Profit (loss) for the period | - | - | - | - | - | - | - | 74,499 | 74,499 | (1,206) | 73,293 |
| Total comprehensive income for the period | - | - | - | - | (675) | - | - | 74,499 | 73,824 | (1,399) | 72,425 |
| Capital injection from a non-controlling shareholder | - | - | - | - | - | - | - | - | - | 6,911 | 6,911 |
| Issue of shares upon conversion of convertible notes | 23,758 | 411,498 | - | - | - | - | - | - | 435,256 | - | 435,256 |
| Elimination on disposal of subsidiaries (note 6) | - | - | - | - | - | - | - | - | - | 761 | 761 |
| At 30 June 2012 (unaudited) | 59,223 | 411,498 | 4,289 | 225 | 1,436 | - | 34 | (176,309) | 300,396 | 221,626 | 522,022 |
| At 1 January 2011 (audited) | 354,722 | 1,189,053 | 4,289 | 11,705 | 24,838 | 3,306 | 34 | (1,858,174) | (270,227) | 221,796 | (48,431) |
| Exchange difference arising on translation of functional currency to presentation currency | - | - | - | - | 35,881 | - | - | - | 35,881 | 2,253 | 38,134 |
| Loss for the period | - | - | - | - | - | - | - | (586,902) | (586,902) | (21,741) | (608,643) |
| Total comprehensive income for the period | - | - | - | - | 35,881 | - | - | (586,902) | (551,021) | (19,488) | (570,509) |
| Reduction of share capital upon capital reorganisation (note 19) | (319,257) | (1,189,053) | - | - | - | - | - | 1,508,310 | - | - | - |
| At 30 June 2011 (unaudited) | 35,465 | - | 4,289 | 11,705 | 60,719 | 3,306 | 34 | (936,766) | (821,248) | 202,308 | (618,940) |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 30 June 2012*

| | Notes | Six months ended 30 June 2012 HK$'000 (Unaudited) | 2011 HK$'000 (Unaudited) |
|---|---|---|---|
| Operating activities | | | |
| Profit (loss) before taxation from continuing and discontinued operations | | **73,293** | (608,643) |
| Adjustments for: | | | |
| Allowance for bad and doubtful debt | | **–** | 5,959 |
| Allowance for obsolete inventories | | **–** | 40,979 |
| Change in fair value of held-for-trading investments | | **12,312** | (7,828) |
| Deposits and prepayments written off | | **–** | 2,709 |
| Depreciation of property, plant and equipment | | **528** | 207 |
| Finance costs | | **13,547** | 18,868 |
| Gain on disposal of subsidiaries | 6 | **(24,215)** | – |
| Interest income | | **(561)** | (712) |
| Loss on disposal of property, plant and equipment | | **–** | 26 |
| Net (gain) loss on fair value change of derivative financial instruments | | **(90,854)** | 490,499 |
| Release of prepaid lease payments | | **49** | 112 |
| Operating cash flows before movements in working capital | | **(15,901)** | (57,824) |
| Increase in inventories | | **–** | (5,857) |
| Increase in properties under development | | **(17,679)** | (8,578) |
| Increase in trade and other receivables | | **(582)** | (265) |
| (Increase) decrease in deposits and prepayments | | **(494)** | 9,181 |
| Increase in held-for-trading investments | | **–** | (15,362) |
| (Decrease) increase in trade and other payables | | **(3,395)** | 24,671 |
| Net cash used in operating activities | | **(38,051)** | (54,034) |
| Investing activities | | | |
| Interest received | | **561** | 712 |
| Deferred consideration received from disposal of food processing and distribution operation | | **9,724** | – |
| Purchases of property, plant and equipment | | **(190)** | (985) |
| Net cash from (used in) investing activities | | **10,095** | (273) |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 30 June 2012*

| | Six months ended 30 June | |
|---|---|---|
| | **2012** | 2011 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Financing activities | | |
| Capital contribution from a non-controlling shareholder | **6,911** | – |
| Repayment of other borrowings | **(1,523)** | – |
| Repayment of obligation under a finance lease | **(38)** | (38) |
| Interest paid | **(276)** | (1,311) |
| Bank loan raised | **–** | 378 |
| Repayment of advance from associate | **–** | (71) |
| Net cash from (used in) financing activities | **5,074** | (1,042) |
| Net decrease in cash and cash equivalents | **(22,882)** | (55,349) |
| Cash and cash equivalents at 1 January | **30,226** | 143,492 |
| Effect of changes in foreign exchange rates | **(490)** | (1,063) |
| Cash and cash equivalents at 30 June, represented by bank balances and cash | **6,854** | 87,080 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2012*

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as 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 "Stock Exchange") (the "Listing Rules").

In preparing the condensed consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group, despite the fact that the Group has turned around from a loss of HK$608,643,000 for the six months ended 30 June 2011 to a profit of HK$73,293,000 in the current interim period, and as of 30 June 2012, the Group has net current assets of HK$513,097,000 (net current liabilities of HK$2,679,000 at 31 December 2011). However, as at 30 June 2012, the Group has convertible notes of aggregate carrying amount of HK$82,958,000 (principal amount of HK$90,000,000), which will be due for redemption in December 2012, which exceed its cash and cash equivalent of HK$6,854,000. To address the liquidity issue, on 16 August 2012, the Company has entered into a placing agreement with a placing agent, on a best effort basis, to place new convertible notes amounting to HK$120,000,000 to raise additional funds for the Group. The proceed from the new issue will be used to repay the existing outstanding convertible notes of principal amount HK$90,000,000 and the remaining funds will be applied as general working capital. As of the date of this report, the Company has entered into a supplemental placing agreement with the placing agent, whereby the placing agent will underwrite the entire amount of the placing.

Furthermore, subsequent to the end of the reporting period, Allywing Investments Limited (a wholly-owned subsidiary of the Company) has obtained a RMB42,000,000 (approximately HK$51,850,000) term loan facility from a bank in Hong Kong (subject to fulfillment of certain precedent conditions and loan covenants as well as charges over the shares of and guarantees provided by certain subsidiaries of the Group) to finance its property development business. The management of the Company is also confident that the Group can further obtain new bank borrowings through the pledge of its equity interest in the property development project and the land use rights in the People's Republic of China (the "PRC").

The directors of the Company are of the view that funds will be available to meet the Group's financial obligations as and when they fall due in the foreseeable future, taking into account that the abovementioned measures implemented and accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain derivative financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

## 3. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by reportable and operating segments:

*Six months ended 30 June 2012*

| | **Continuing operations** | | |
|---|---|---|---|
| | **Property development** *HK$'000* | **Investment in securities** *HK$'000* | **Total** *HK$'000* |
| **TURNOVER** | | | |
| External sales | – | – | – |
| **SEGMENT RESULT** | **(3,064)** | **(12,343)** | **(15,407)** |
| Unallocated corporate income | | | **610** |
| Unallocated corporate expenses | | | **(13,432)** |
| Other gains and losses | | | **115,069** |
| Finance costs | | | **(13,547)** |
| Profit for the period | | | **73,293** |

## 3. SEGMENT INFORMATION (Continued)

*Six months ended 30 June 2011 (restated)*

| | Continuing operations | | | Discontinued operation | |
|---|---|---|---|---|---|
| | Property development *HK$'000* | Investment in securities *HK$'000* | Total *HK$'000* | Timber *HK$'000* | Total *HK$'000* |
| **TURNOVER** | | | | | |
| External sales | – | – | – | 32,328 | 32,328 |
| **SEGMENT RESULT** | (5,486) | 7,815 | 2,329 | (55,072) | (52,743) |
| Unallocated corporate income | | | 4 | 697 | 701 |
| Unallocated corporate expenses | | | (42,797) | (4,437) | (47,234) |
| Other gains and losses | | | (490,499) | – | (490,499) |
| Finance costs | | | (17,673) | (1,195) | (18,868) |
| Loss for the period | | | (548,636) | (60,007) | (608,643) |

Segment result represents loss or profit from each segment without allocation of interest income, central administrative costs, directors' emoluments, finance costs and other gains and losses excluding loss from held-for-trading investments, which is included in the investment in securities segment result. This is the measure regularly reported to the board of directors of the Company for the purpose of resource allocation and performance assessment.

## 4. RESULTS FOR THE PERIOD

The principal activities of the Group during the current interim period are investment in securities and property development business. Both of which are not affected by seasonal or cyclical factors for its operations. The principal activities of the Group during the six months ended 30 June 2011 are investment in securities, property development and timber business. The timber business was disposed of on 29 December 2011 and presented as discontinued operation.

## 5. TAXATION

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries incorporated in Hong Kong have no assessable profits for both periods presented.

No provision for the PRC Enterprise Income Tax has been made as those subsidiaries established in the PRC have no assessable profits for both periods presented.

## 6. DISCONTINUED OPERATION/DISPOSAL OF SUBSIDIARIES

*(a) Timber operation*

On 18 November 2011, the Group entered into an agreement with Intelligence International Limited ("Intelligence International"), a company incorporated in the British Virgin Islands, to dispose all of its entire interests in Wood Art International Corporation ("Wood Art") and its subsidiaries (the "Wood Art Group"), which carried out all of the Group's timber operation (the "2011 Disposal"). Intelligence International is an independent third party of the Group. The 2011 Disposal was approved by the shareholders of the Company and completed on 29 December 2011. Total consideration for the 2011 Disposal amounted to HK$100,000.

The loss for the period from discontinued operation is analysed as follows:

| | 1.1.2011 to 30.6.2011 *HK$'000* |
|---|---:|
| Loss of timber operation for the period | (60,007) |

The results of the Wood Art Group for the period from 1 January 2011 to 30 June 2011, which have been included in the condensed consolidated statement of comprehensive income and presented as discontinued operation, were as follows:

| | 1.1.2011 to 30.6.2011 *HK$'000* |
|---|---:|
| Turnover | 32,328 |
| Cost of sales | (70,563) |
| Gross loss | (38,235) |
| Other income | 2,217 |
| Selling and distribution costs | (3,165) |
| Administrative expenses | (19,629) |
| Finance costs | (1,195) |
| Loss for the period | (60,007) |
| Loss for the period attributable to: | |
| Owners of the Company | (40,439) |
| Non-controlling interests | (19,568) |
| | (60,007) |

During the six-month period ended 30 June 2011, the Wood Art Group contributed an outflow of HK$28,462,000 to the Group's net operating cash flows, cash inflow of HK$697,000 in respect of investing activities and cash outflow of HK$1,195,000 in respect of financing activities.

## 6. DISCONTINUED OPERATION/DISPOSAL OF SUBSIDIARIES (Continued)

*(b) Disposal of TGT Holdings Corporation ("TGT") and other subsidiaries (the "2012 Disposal")*

On 31 January 2012, the Group entered into an agreement with Barstow Holdings Limited ("Barstow"), a company incorporated in the British Virgin Islands, to dispose all of its entire interests in Ta Fu Strategic Investment Limited, TGT and its subsidiaries, Fulbond Business Services Limited and Fulbond Digital Systems Limited (collectively known as the "TGT Group").

Barstow is an independent third party of the Group. The 2012 Disposal was approved by the Board of Directors of the Company and completed on 31 January 2012. Total consideration for the 2012 Disposal was HK$35 in cash.

The profit for the period from disposal of subsidiaries is analysed as follows:

| | 1.1.2012 to 31.1.2012 *HK$'000* |
|---|---|
| Gain on disposal of subsidiaries | 24,215 |

Analysis of assets and liabilities of the TGT Group at the date of disposal was as follows:

| | 31.1.2012 *HK$'000* |
|---|---|
| Other debtors and prepayments | 735 |
| Other payables | (18,221) |
| Amounts due to the Company | (605,832) |
| Amount due to the Company's subsidiaries | (8,856) |
| Amounts due to non-controlling shareholders of subsidiaries | (7,490) |
| Net liabilities disposed of | (639,664) |
| Less: Non-controlling interests | 761 |
| | (638,903) |
| Gain on disposal of subsidiaries: | |
| Consideration received | – |
| Net liabilities disposed of | 638,903 |
| Assignment of amounts due to the Company | (605,832) |
| Assignment of amounts due to the Company's subsidiaries | (8,856) |
| Gain on disposal | 24,215 |

During the period from 1 January 2012 to 31 January 2012, the TGT Group had no contribution to the Group's cash flows.

## 7. OTHER INCOME

| | Six months ended 30 June 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Interest income | **561** | 15 |
| Others | **49** | 166 |
| | **610** | 181 |

## 8. OTHER GAINS AND LOSSES

| | Six months ended 30 June 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Change in fair value of held-for-trading investments | **(12,312)** | 7,828 |
| Gain on disposal of subsidiaries (Note 6) | **24,215** | – |
| Net gain (losses) on fair value change of derivative financial instruments | **90,854** | (490,499) |
| | **102,757** | (482,671) |

## 9. PROFIT (LOSS) FOR THE PERIOD

| | Six months ended 30 June 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Profit (loss) for the period has been arrived at after charging: | | |
| Release of prepaid lease payments | **49** | 112 |
| Depreciation of property, plant and equipment | **528** | 207 |
| Interest expense on convertible notes | **13,271** | 17,557 |
| Project management fee (included in other expenses) (note) | **–** | 23,000 |

Note: On 29 November 2010, Allywing Investment Limited ("Allywing"), a wholly owned subsidiary of the Group, entered into a Management Agreement with Harvest Day Limited ("Harvest Day") pursuant to which Harvest Day agreed to provide professional management and consultancy services to Allywing in relation to the property development project which the Group is currently developing properties for sale. The fee under the Management Agreement is HK$50,000,000, payable in 3 instalments by the Group upon certain milestones being achieved in the property development project. During the six months ended 30 June 2012, the Group made no payment to Harvest Day (six months ended 30 June 2011: first instalment of HK$23,000,000 and nil in six months ended 31 December 2011). The amount of HK$23,000,000 paid by the Group was charged to profit and loss for the period.

## 10. EARNINGS (LOSS) PER SHARE

*For continuing and discontinued operations*

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

| | Six months ended 30 June | |
|---|---|---|
| | **2012** | 2011 |
| | ***HK$'000*** | *HK$'000* |
| **Earnings (loss):** | | |
| Profit (loss) for the period attributable to owners of the Company for the purpose of basic earnings (loss) per share | **74,499** | (586,902) |
| Effect of dilutive potential ordinary shares: | | |
| – Interest on convertible notes | **13,271** | – |
| – Change in fair value of embedded derivatives | **(90,854)** | – |
| Loss for the purpose of diluted loss per share | **(3,084)** | (586,902) |

| | Six months ended 30 June | |
|---|---|---|
| | **2012** | 2011 |
| **Number of shares:** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share | **6,069,211,033** | 4,564,292,763 |
| Effect of dilutive potential ordinary shares in respect of convertible notes | **2,463,626,374** | – |
| Weighted average number of ordinary shares for the purpose of diluted loss per share | **8,532,837,407** | 4,564,292,763 |

The computation of diluted loss per share for the six months period ended 30 June 2011 did not assume the conversion of certain convertible notes since their assumed conversion would result in a decrease in the loss per share. It does not assume the exercise of the Company's outstanding share options for the six months period ended 30 June 2011 as the exercise price of those options is higher than the average market price for shares during the period.

## 10. EARNINGS (LOSS) PER SHARE (Continued)

*From continuing operations*

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

| | Six months ended 30 June | |
|---|---|---|
| | **2012** | 2011 |
| | ***HK$'000*** | *HK$'000* |
| Profit (loss) for the period attributable to owners of the Company | **74,499** | (586,902) |
| Less: Loss for the period from discontinued operation | **–** | 40,439 |
| Profit (loss) for the purpose of basic earnings (loss) per share from continuing operations | **74,499** | (546,463) |
| Effect of dilutive potential ordinary shares: | | |
| – Interest on convertible loan notes | **13,271** | – |
| – Change in fair value of embedded derivatives | **(90,854)** | – |
| Loss for the purpose of diluted loss per share from continuing operations | **(3,084)** | (546,463) |

The denominators used are the same as those detailed above for both basic and diluted earnings (loss) per share from continuing and discontinued operations.

*From discontinued operation*

No basic or diluted earnings per share for discontinued operation for the six months ended 30 June 2012 as the Group has had no discontinued operation for the period.

Basic and diluted loss per share for discontinued operation for the six months ended 30 June 2011 was HK0.886 cent per share, based on the loss for the period from discontinued operation of HK$40,439,000 and the denominator as detailed above for basic earnings (loss) per share from continuing and discontinued operations.

The computation of diluted loss per share for the six months ended 30 June 2011 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares during the period. It does not assume the conversion of all convertible notes for the six months ended 30 June 2011 since their assumed conversion would result in a decrease in the loss per share.

## 11. DIVIDEND

No dividends were paid, declared or proposed during the interim. The directors have determined that no dividend will be paid in respect of the current interim period.

## 12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group spent approximately HK$190,000 (six months ended 30 June 2011: HK$985,000) on acquisitions of property, plant and equipment.

## 13. OTHER RECEIVABLES

The following is an analysis of other receivables at the end of the reporting period:

| | **30.6.2012** | 31.12.2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Other receivables | **143** | 297 |
| Consideration receivable for disposal of food processing and distribution operation | **15,276** | 25,000 |
| | **15,419** | 25,297 |

## 14. HELD-FOR-TRADING INVESTMENTS

| | **30.6.2012** | 31.12.2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Held-for-trading investments include: | | |
| Equity securities listed in Hong Kong | **30,866** | 43,178 |

## 15. TRADE AND OTHER PAYABLES

The following is an analysis of trade and other payables at the end of the reporting period:

| | **30.6.2012** | 31.12.2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables, aged | | |
| More than 180 days | **–** | 4,885 |
| | **–** | 4,885 |
| Amount due to former director of a subsidiary | **5,473** | 5,469 |
| Accrued expenses and other payables | **13,189** | 27,407 |
| Accrued costs for construction work | **48,684** | 14,383 |
| | **67,346** | 52,144 |

## 16. AMOUNTS DUE TO DIRECTORS OF SUBSIDIARIES

The amounts were unsecured, interest-free and repayable on demand.

## 17. CONVERTIBLE NOTES

On 6 August 2009, the Company entered into a placing agreement (the "Fulbond CN Placing Agreement") with a placing agent whereby the Company agreed, subject to conditions (including the Stock Exchange's and shareholders' approval) issue zero coupon convertible notes in a maximum aggregate principal amount of HK$800,000,000 (the "Fulbond Convertible Notes") which can be converted into ordinary shares of the Company at a conversion price of HK$0.01 per share. The placing shall proceed in two tranches namely, the First Tranche Fulbond Convertible Notes and the Second Tranche Fulbond Convertible Notes. Both the First Tranche Fulbond Convertible Notes (up to the aggregate principal amount of HK$450,000,000) and the Second Tranche Fulbond Convertible Notes (up to the aggregate principal amount of HK$350,000,000) fall under the placing and are subject to the same terms and conditions under the Fulbond CN placing agreement.

The Fulbond Convertible Notes are denominated in Hong Kong dollars with a conversion period of 36 months from the first issue date and can be converted into ordinary shares of the Company at HK$0.01 per share, and may be adjusted upon occurrence of adjustment events, which include consolidation or sub-division of shares, capitalisation of profits or reserves, capital distributions in cash or specie, rights issues or grant of options or warrants to subscribe for new shares at a price which is less than 60% of the market price, issue for cash of securities which are convertible into or exchangeable for or carry rights of subscription for new shares or modification of rights of conversion or exchange or subscription attached to such securities such that the total effective consideration per share initially receivable for such securities is less than 80% of the market price, issue shares for cash at a price per share which is less than 80% of the market price, issue shares for the acquisition of assets at a total effective consideration per share which is less than 80% of the market price, and will in any event not be adjusted below the par value of the share.

The Fulbond Convertible Notes contain three components, the liability component, conversion option and issuer's early redemption option. The conversion option gives the holder's right at any time to convert the Fulbond Convertible Notes into ordinary shares of the Company. However since the conversion option will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments, the conversion option is accounted for as a derivative liability. The early redemption option gives the issuer the right to redeem the note at par at any time before maturity. Both conversion option derivative and early redemption option are measured at fair value with changes in fair value recognised in profit or loss.

The fair value of the liability component upon the issuance of the note was calculated at the present value of the principal amount. The Fulbond Convertible Notes can only be redeemed at par at the discretion of the issuer in whole or in part anytime before the maturity date. All tranches of the Fulbond Convertible Notes will mature on 28 December 2012.

On 21 June 2011, the Company obtained approval from its shareholders to the proposed reorganisation of the share capital of the Company (the "Capital Re-organisation"), which involves share consolidation every 10 existing shares of par value US$0.001 (equivalent to HK$0.01) into one consolidated share of par value US$0.01 (equivalent to HK$0.10) and capital reduction of the par value of each issued consolidated share from US$0.01 (equivalent to HK$0.10) to US$0.001 (equivalent to HK$0.01) by cancellation of US$0.009 (equivalent to HK$0.09) of the paid up capital of each issued consolidated share (see note 19). The original conversion price was adjusted from HK$0.01 per share to HK$0.10 per share as a result of Capital Re-organisation.

**17. CONVERTIBLE NOTES** (Continued)

*First Tranche Fulbond Convertible Notes*

On 29 December 2009, the Company partially issued the First Tranche Fulbond Convertible Notes with the principal amount of HK$200,000,000 (the "1st HK$200M Fulbond CN") to an independent third party. The effective interest rate of the liability component and discount rate used is 15.24% which represents the cost of debt applicable to the Company at the issue date.

On 14 January 2010, the Company issued the remaining portion of the First Tranche Fulbond Convertible Notes with principal amount of HK$250,000,000 (the "2nd HK$250M Fulbond CN") to an independent third party. The effective interest rate of the liability component and discount rate used is 12.66% which represents the cost of debt applicable to the Company at the issue date.

On 12 January 2010 and 11 August 2010, certain holders of the 1st HK$200M Fulbond CN gave notice to the Company to convert the 1st HK$200M Fulbond CN in aggregate principal amount of HK$140,000,000 to ordinary shares of the Company. During the period up to each respective date of conversion, a loss on fair value change of embedded conversion option and early redemption option in aggregate of HK$320,409,000 was recognised in the profit or loss. On 12 January 2010 and 11 August 2010, the aggregate carrying value of the liability component and the fair value of the embedded conversion option and early redemption option are approximately HK$497,161,000 and HK$78,225,000, respectively, and were transferred to equity.

On 5 May 2010, 18 May 2010 and 11 August 2010, certain holders of the 2nd HK$250M Fulbond CN gave notice to the Company to convert the 2nd HK$250M Fulbond CN in aggregate principal amount of HK$130,000,000 to ordinary shares of the Company. During the period up to each respective date of conversion, a gain on fair value change of embedded conversion option and early redemption option in aggregate of HK$70,983,000 was recognised in the profit or loss. On 5 May 2010, 18 May 2010 and 11 August 2010, the aggregate carrying value of the liability component and the fair value of the embedded conversion option and early redemption option are approximately HK$62,060,000, HK$153,952,000 and HK$59,440,000, respectively, and were transferred to equity.

On 2 April 2012, holders of the First Tranche Convertible Notes, have given notice to the Company to convert remaining portion of 1st HK$200M Fulbond CN and 2nd HK$250M Fulbond CN in aggregate principal amount of HK$60,000,000 and HK$120,000,000 to ordinary shares of the Company respectively. The carrying value of the liability component and fair value of the embedded conversion option and early redemption option of 1st HK$200M Fulbond CN and 2nd HK$250M Fulbond CN at the date of conversion were approximately HK$88,482,000 and HK$169,432,000 respectively, giving rise to a gain on fair value changes of HK$6,804,000 and HK$13,608,000 recognised in profit or loss respectively.

## 17. CONVERTIBLE NOTES (Continued)

*First Tranche Fulbond Convertible Notes (Continued)*

The fair values of the embedded conversion option and the issuer's early redemption option were determined using binomial option pricing model, and the inputs into the model at each respective date were as follows:

| | (Date of conversion) 2.4.2012 | 31.12.2011 | 31.12.2010 | (Date of conversion) 11.8.2010 | (Date of conversion) 18.5.2010 | (Date of conversion) 5.5.2010 | 14.1.2010 | (Date of conversion) 12.1.2010 | 31.12.2009 | 29.12.2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| Conversion price | **HK$0.10** | HK$0.10 | HK$0.01 | HK$0.01 | HK$0.01 | HK$0.01 | HK$0.01 | HK$0.01 | HK$0.01 | HK$0.01 |
| Share price | **HK$0.142** | HK$0.143 | HK$0.020 | HK$0.019 | HK$0.020 | HK$0.024 | HK$0.028 | HK$0.050 | HK$0.019 | HK$0.017 |
| Expected volatility | **53.36%** | 50.27% | 45.37% | 64.09% | 66.10% | 65.87% | 69.03% | 68.80% | 62.01% | 62.01% |
| Remaining life | **0.74 year** | 0.99 year | 1.99 years | 2.38 years | 2.62 years | 2.65 years | 2.96 years | 2.96 years | 2.99 years | 3 years |
| Risk-free rate | **0.130%** | 0.250% | 0.585% | 0.409% | 0.81% | 0.984% | 0.995% | 1.004% | 1.177% | 1.136% |

*Second Tranche Fulbond Convertible Notes*

On 10 August 2010, the Company issued the first portion of the Second Tranche Fulbond Convertible Notes with principal amount of HK$250,000,000 (the "3rd HK$250M Fulbond CN") to an independent third party. The effective interest rate of the liability component and the discount rate used is 10.61% which represents the cost of debt applicable to the Company at the issue date.

On 11 August 2010, certain holders of the 3rd HK$250M Fulbond CN have given notice to the Company to convert certain of the 3rd HK$250M Fulbond CN in aggregate principal amount of HK$34,000,000 to ordinary shares of the Company. During the period up to the date of conversion, a loss on fair value change of embedded conversion option and early redemption option in aggregate of HK$9,552,000 was recognised in the profit or loss. On 11 August 2010, the aggregate carrying value of the liability component and the fair value of the embedded conversion option and early redemption option is approximately HK$67,893,000 and was transferred to equity.

On 2 April 2012, certain holders of the 3rd HK$250M Fulbond CN have given notice to the Company to convert certain of the 3rd HK$250M Fulbond CN in aggregate principal amount of HK$126,000,000 to ordinary shares of the Company. The carrying value of the liability component and fair value of the embedded conversion option and early redemption option at the date of conversion is approximately HK$177,342,000, giving rise to a gain on fair value changes of HK$14,288,000 recognised in profit or loss.

The aggregate principal amount under the Second Tranche Fulbond Convertible Notes outstanding at 30 June 2012 and 31 December 2011 amounts to HK$90,000,000 and HK$216,000,000 respectively and the carrying amount of the liability components and the fair values of the embedded conversion option and early redemption option in aggregate are approximately HK$82,644,000 (31 December 2011: HK$187,386,000) and HK$314,000 (31 December 2011: HK$135,524,000) respectively. During the six months period ended 30 June 2012, an aggregate fair value gain of HK$56,154,000 (six months ended 30 June 2011: HK$128,704,000) in respect of the outstanding Second Tranche Fulbond Convertible Notes was recognised in the profit or loss.

## 17. CONVERTIBLE NOTES (Continued)

*Second Tranche Fulbond Convertible Notes (Continued)*

The remaining unissued tranche of Fulbond Convertible Notes of HK$100,000,000 expired in October 2010.

The fair values of the embedded conversion option and the issuer's early redemption option were determined using binomial option pricing model, respectively, and the inputs into the model at each respective date were as follows:

| | **30.6.2012** | **(Date of conversion) 2.4.2012** | **31.12.2011** | **31.12.2010** | **(Date of conversion) 11.8.2010** | **10.8.2010** |
|---|---|---|---|---|---|---|
| Conversion price | **HK$0.100** | HK$0.100 | HK$0.100 | HK$0.010 | HK$0.010 | HK$0.010 |
| Share price | **HK$0.061** | HK$0.142 | HK$0.143 | HK$0.020 | HK$0.019 | HK$0.016 |
| Expected volatility | **37.04%** | 53.36% | 50.27% | 45.37% | 64.09% | 64.16% |
| Remaining life | **0.49 year** | 0.74 year | 0.99 year | 1.99 years | 2.38 years | 2.39 years |
| Risk-free rate | **0.110%** | 0.130% | 0.250% | 0.585% | 0.409% | 0.448% |

The movements of the components of First and Second Tranche Fulbond Convertible Notes during the period are set out below:

| | **Principal amount** *HK$'000* | **Liability component** *HK$'000* | **Embedded derivatives** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| At 31 December 2010 | 396,000 | 307,603 | 484,425 | 792,028 |
| Change in fair value | – | – | (235,964) | (235,964) |
| Interest charged | – | 39,733 | – | 39,733 |
| At 31 December 2011 | 396,000 | 347,336 | 248,461 | 595,797 |
| Change in fair value | – | – | (90,854) | (90,854) |
| Interest charged | – | 13,271 | – | 13,271 |
| Converted during the period | (306,000) | (277,963) | (157,293) | (435,256) |
| At 30 June 2012 | **90,000** | **82,644** | **314** | **82,958** |

Analysed for reporting purpose as:

| | **30.6.2012** ***HK$'000*** | 31.12.2011 *HK$'000* |
|---|---|---|
| Current liabilities | **82,958** | 595,797 |

## 18. OTHER BORROWINGS

The amounts bear interest at prevailing market rates and fully repaid in the current period.

## 19. SHARE CAPITAL

| | Number of shares | Amount *US$'000* | As presented *HK$'000* |
|---|---|---|---|
| Ordinary shares of US$0.001 each | | | |
| Authorised: | | | |
| At 1 January 2011, 31 December 2011 and 30 June 2012 | 100,000,000,000 | 100,000 | 775,000 |
| Issued and fully paid: | | | |
| At 1 January 2011 | 45,642,927,432 | 45,643 | 354,722 |
| Issue of shares upon exercise of share options (note a) | 2,568 | – | – |
| Adjustment on Capital Re-organisation (note b) | (41,078,637,000) | (41,079) | (319,257) |
| At 30 June 2011 and 31 December 2011 | 4,564,293,000 | 4,564 | 35,465 |
| Issue of shares upon conversion of convertible notes | 3,060,000,000 | 3,060 | 23,758 |
| At 30 June 2012 | **7,624,293,000** | **7,624** | **59,223** |

Notes:

(a) 2,628 share options granted to executives and employees were exercised on 16 June 2011 at an exercise price of HK$0.41.

(b) Pursuant to special resolution passed by the shareholders in the special general meeting on 21 June 2011, the Company approved the following capital re-organisation:

- Consolidation of every 10 existing shares of US$0.001 each in the issued share capital of the Company into one consolidated share of par value US$0.01 ("Share Consolidation");
- Upon the Share Consolidation becoming effective, the par value of each issued consolidated share is reduced from US$0.01 to US$0.001 by cancellation of US$0.009 of the paid-up capital of each issued consolidated share ("Capital Reduction"); and
- Upon Share Consolidation and the Capital Reduction becoming effective, the entire amount of the share premium account is cancelled.

The above capital re-organisation was in effect from 22 June 2011.

The new shares issued during the six-month period ended 30 June 2012 rank pari passu in all respects with existing shares in issue.

## 20. LEASING ARRANGEMENTS

*The Group as lessee*

At the end of the reporting period, the Group had outstanding commitment for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

| | **30.6.2012** | 31.12.2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **1,383** | 1,809 |
| In the second to fifth year inclusive | **112** | 1,055 |
| | **1,495** | 2,864 |

## 21. RELATED PARTY TRANSACTIONS

The key management personnel are the directors of the Company. The short-term remuneration and contributions to retirement benefits of directors for the six months period ended 30 June 2012 was HK$5,077,000 (six months ended 30 June 2011: HK$2,189,000) and HK$52,000 (six months ended 30 June 2011: HK$12,000) respectively.

## 22. CAPITAL COMMITMENTS

As at 30 June 2012, the Group was committed to an expenditure on properties under development of HK$282,942,000 (31 December 2011: HK$84,365,000).

## 23. EVENT AFTER THE REPORTING PERIOD

Subsequent to 30 June 2012, the Company has issued announcements on 17 August 2012 and 27 August 2012 (the "Announcements") in connection with the proposed capital reorganisation and issuance of convertible notes and summary of details of the Announcements were as follows:

(a) The Company intends to put forward for approval by the shareholders of the Company of the proposed reorganisation of the share capital of the Company as set out in the section headed "Proposed Capital Reorganisation and Change of Board Lot Size" of the Announcement ("Capital Reorganisation") which involves the following:

- Share consolidation: every 4 existing shares of US$0.001 each in the issued share capital of the Company will be consolidated into one consolidated share of par value US$0.004;

- Capital reduction: upon the Share Consolidation becoming effective, the par value of each issued consolidated share will be reduced from US$0.004 to US$0.001 by cancellation of US$0.003 of the paid-up capital of each issued consolidated share; and

- Share premium reduction: the entire amount standing to the credit of the share premium account of the Company as at 30 June 2012 will be reduced and cancelled.

(b) On 16 August 2012, the Company has entered into a placing agreement (as supplemented and amended by a side letter dated 27 August 2012) (the "CN Placing Agreement") with a placing agent and pursuant to the CN Placing Agreement, the Company has conditionally agreed to place convertible notes of the principal amount of HK$120,000,000 on a fully underwritten basis (the "Placing") which will carry a right to convert into conversion shares of the Company at the conversion price of, subject to adjustment, HK$0.12 per Reorganised Share. The Group intends to apply the net proceeds obtained from the Placing for the redemption of the outstanding convertible notes and remaining proceeds as funds for business operations and development of the Group.

The proposed Capital Reorganisation and placing of convertible notes are subject to approval by the Stock Exchange and the shareholders of the Company. Up to the date when the condensed consolidated financial statements of the Group were authorised for issue, the proposed transactions above have not been approved by the Stock Exchange and the shareholders of the Company.

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF
**CHINA NEW ENERGY POWER GROUP LIMITED**
**中國新能源動力集團有限公司**
*(FORMERLY KNOWN AS FULBOND HOLDINGS LIMITED 福邦控股有限公司)*

## INTRODUCTION

We have reviewed the condensed consolidated financial statements of **China New Energy Power Group Limited** (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 3 to 24, which comprise the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

## OTHER MATTER

Without qualifying our review conclusion, we draw attention to the fact that the comparative condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended 30 June 2011 and the relevant explanatory notes disclosed in these condensed consolidated financial statements have not been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
27 August 2012

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL RESULTS

### Revenue

In the first half of year 2012, the Group did not record any revenue (1.1.2011 to 30.6.2011: approximately HK$32.33 million), this is because the Group disposed of the timber business at the end of year 2011. No gross profit or loss was therefore recorded for the reporting period (1.1.2011 to 30.6.2011: gross loss of approximately HK$38.24 million).

### Segmental Results

***Property development business***

There was no revenue generated from the operation of property development for the reporting period (1.1.2011 to 30.6.2011: Nil) and its segmental result suffered a loss of approximately HK$3.06 million (1.1.2011 to 30.6.2011: loss of approximately HK$5.49 million).

***Investment in securities business***

There was no revenue generated from the operation of investment in securities for the reporting period (1.1.2011 to 30.6.2011: Nil) and its segmental loss was approximately HK$12.34 million (1.1.2011 to 30.6.2011: profit of approximately HK$7.82 million).

***Timber business***

Due to the completion of the disposal of the Wood Art Group on 29 December 2011, there was no revenue generated from such business during the reporting period (1.1.2011 to 30.6.2011: approximately HK$32.33 million).

No segmental result was accounted for the timber business during the reporting period as it was already disposed in the year 2011 (1.1.2011 to 30.6.2011: loss of approximately HK$55.07 million).

## Cost of Sales

As the timber business had been discontinued last year and the property development project is still under construction, no cost of sales was recorded during the reporting period (1.1.2011 to 30.6.2011: approximately HK$70.56 million).

## Gross Loss

Resulted from the discontinuance of the timber business and construction being progressed of the property development business, neither gross loss nor gross profit arose in the current period (1.1.2011 to 30.6.2011: gross loss of approximately HK$38.24 million).

## Other Income

The Group's other income for the reporting period decreased to approximately HK$0.6 million from approximately HK$2.4 million for the corresponding period in 2011.

## Other Gains and Losses

Other gains of the Group amounted to approximately HK$102.76 million for the reporting period (1.1.2011 to 30.6.2011: losses of approximately HK$482.67 million). The gains mainly consisted of the net gain on fair value change of derivative financial instruments of approximately HK$90.85 million (1.1.2011 to 30.6.2011: loss of approximately HK$490.50 million).

## Selling and Distribution Costs

No selling and distribution costs were incurred by the Group for the reporting period since the disposal of the Wood Art Group (1.1.2011 to 30.6.2011: approximately HK$3.17 million).

## Administrative Expenses

The Group's administrative expenses for the reporting period decreased to approximately HK$16.53 million from approximately HK$45.10 million in the corresponding period in 2011. The significant decrease was mainly due to the reduction in administrative expenses after the disposal of the deteriorated timber business.

## Other Expenses

There was no other expenses incurred by the Group for the reporting period (1.1.2011 to 30.6.2011: approximately HK$23.00 million).

## Finance Costs

The Group's finance costs for the reporting period decreased to approximately HK$13.55 million from approximately HK$18.87 million in the corresponding period in 2011.

### Profit/Loss for the Period and Earnings/Loss Per Share

The Group's profit attributable to owners of the Company for the reporting period was approximately HK$74.50 million whereas a loss of approximately HK$586.90 million was suffered in the corresponding period last year. The change was mainly due to the net gain on fair value change of the derivative financial instruments as well as loss-cutting resulted from disposal of the deteriorated timber business in December 2011. Basic earnings per share from continuing operations of the Group was improved from loss of HK11.973 cents per share for the six months ended 30 June 2011 to earnings of HK1.227 cents per share for the six months ended 30 June 2012. Meanwhile, diluted loss per share from continuing operations was HK0.036 cents per share for the six months ended 30 June 2012 (1.1.2011 to 30.6.2011: loss per share HK11.973 cents).

## BUSINESS REVIEW

Following the disposal of its deteriorated timber business in December 2011, the businesses and operations of the Group for the period under review were property development business and investment in securities business.

As the property development project was still in construction stage, no revenue was recorded during the reporting period. The Group effectively controlled the administrative expenses as well as managed its financial position. During the reporting period, the Group closely monitored the progress of its property development project and the measures implemented by the PRC Government on the property development markets.

Reference is made to the announcement of the Company dated 1 May 2012 in relation to the acquisition of the entire issued share capital of and assignment of the shareholder's loan in Lithium Energy Group Ltd. (the "Acquisition"). Due to the market financing and other reasons, certain conditions precedent to the completion of the Acquisition (including, among other things, the completion of the placing of shares and convertible notes of the Company and obtaining the proceeds from such placing of not less than HK$1 billion) ("Conditions Precedent") had yet to be fulfilled (or waived by Fulbond Investments Limited (the "Purchaser"), a wholly-owned subsidiary of the Company) and accordingly, the acquisition agreement dated 13 January 2011 (as supplemented and amended by supplemental agreements dated 23 May 2011, 30 September 2011 and 30 March 2012) (collectively, the "Acquisition Agreement") was lapsed.

### Property development business

According to the existing development plan, the Group will develop the site owned by a 60% owned PRC subsidiary of the Company at Xi'an city, PRC (the "Site") as an area which consists of luxury residential buildings and commercial buildings by several phases.

Major construction works for Phase 1 of the property development project started in the second quarter in this year, and as a result, the Group did not record any revenue from the property development business for the reporting period but a loss of approximately HK$3.06 million (1.1.2011 to 30.6.2011: approximately HK$5.49 million).

### Investment in securities business

There was no revenue generated from the operation of investment in securities for the reporting period and its segmental loss of approximately HK$12.34 million (1.1.2011 to 30.6.2011: profit of approximately HK$7.82 million) was arising from the loss on change in fair value of held-for-trading investments.

## FUTURE PROSPECTS

In these few years, market regulation has become a constant phenomenon in the PRC property market. The PRC government has been repeatedly emphasising its intention for stringent implementation of control policy.

However, the impacts brought about by the slowdown of the global economic recovery, the continued contagion of the European debt crisis and the emerging concerns over possible stagflation on the China economy, caused the PRC government to lower the banks' reserve requirement ratio twice as well as to lower the benchmark interest rates for deposits and loans twice during the first seven months in 2012 in order to maintain a stable and healthy local economy.

While implementing stringent control over the property market, the PRC government has reiterated a number of times that it will support reasonable household purchases of flats by launching a series of measures, such as differentiated credit and tax policies, in order to ensure that first-time home buyers' loan requirements are put on priority and can be met. All these reflect that the fine-tuned policies that support rigid demand for housing by some local governments are being allowed. The Group holds a cautiously optimistic view on the PRC property market over the medium term.

Looking ahead, the Group will keep an open mind when exploring new opportunities but will acquire high potential projects on a carefully selective and prudent basis. We keep on looking for attractive investment and acquisition opportunities in various sectors, including the energy sector, in order to enhance the profitability and maximize our shareholders' value.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2012, the Group's bank balances and cash was approximately HK$6.85 million (31 December 2011: approximately HK$30.23 million), representing a decrease of 77.34%. There was no bank and other borrowings (31 December 2011: approximately HK$1.52 million) as at the end of the reporting period.

As at 30 June 2012, the current ratio (current assets/current liabilities) was 3.94 times (31 December 2011: 1.00 times) and the net current assets amounted to approximately HK$513.10 million (31 December 2011: net current liabilities of approximately HK$2.68 million).

During the reporting period, net cash used in operating activities was approximately HK$38.05 million. The net cash generated from investing activities was approximately HK$10.10 million, mainly consisted of consideration received from disposal of food processing and distribution operation. The net cash generated from financing activities was approximately HK$5.07 million. As a result, the net decrease in cash and cash equivalents during the reporting period was approximately HK$22.88 million.

### No issuance and redemption of Convertible Notes

There was no issuance and redemption of convertible notes during the reporting period. All operations of the Group were financed by funds generated internally.

## LAPSE OF THE ACQUISITION AGREEMENT

Reference is made to the announcements of the Company dated 2 February 2011, 24 May 2011, 30 September 2011, 30 March 2012 and 1 May 2012 and the circulars of the Company dated 25 May 2011 and 24 October 2011 in relation to, inter alia, the Acquisition, which constitutes a very substantial acquisition for the Company under the Listing Rules.

Under the Acquisition Agreement entered into between the Purchaser, the vendor (Hefu Limited) and the vendor's guarantors (namely, Mr. Yeung Tsoi San, Mr. Lau Yung and Mr. Fei Phillip), if the Conditions Precedent are not fulfilled on or before 30 April 2012, the Acquisition Agreement and the transactions contemplated thereunder shall terminate and be null and void and of no further effect and no parties thereto shall have any liability to any other party, save for any antecedent breaches.

On 1 May 2012, the Company announced that, as at 30 April 2012, due to the market financing and other reasons, certain Conditions Precedent (including, among other things, the completion of the placing of shares and convertible notes of the Company and obtaining the proceeds from such placing of not less than HK$1 billion) had yet to be fulfilled (or waived by the Purchaser) and accordingly, the Acquisition Agreement was then lapsed.

## RELATED PARTIES TRANSACTION

With reference to the announcement of the Company dated 29 November 2010 and the circular dated 20 December 2010, on 29 November 2010, Allywing Investments Limited ("Allywing"), a wholly owned subsidiary of the Company, entered into a management agreement (the "Management Agreement") with Harvest Day Limited ("Harvest Day"), a company of which 60% issued share capital is held by a sister of Mr. Zhang Xi, the former joint chairman and executive director of the Company, who resigned on 21 May 2012. Pursuant to the Management Agreement, Harvest Day would provide management and consultancy services to Allywing in connection with the development of the Site. Allywing would pay to Harvest Day an inclusive management fee of HK$50,000,000 by 3 installments. The resolution approving the Management Agreement and the annual caps of management fee payable to Harvest Day was passed at the special general meeting of the Company held on 6 January 2011. The first installment of HK$23,000,000 was paid on 7 January 2011 according to terms and conditions of the Management Agreement.

During the period under review, no project management fee was paid or payable under the Management Agreement.

## SHARE OPTION

On 19 November 2001, a share option scheme (the "Old Scheme") was adopted, whereby the Board may, at its absolute discretion, grant options to any executive or non-executive directors of the Group, any executives and employees of the Group and any other persons who, in the sole discretion of the Board, have contributed or will contribute to the Group to subscribe for shares in the Company.

The Old Scheme expired on 18 November 2011 and the outstanding share options granted under the Old Scheme on 14 July 2008 were also lapsed on 13 July 2011.

A new share option scheme (the "New Scheme") was adopted on 25 May 2012, whereby the Board may, at its absolute discretion, grant options to any eligible participants including directors and employees of the Group (details of which were set out in the circular of the Company dated 24 April 2012) to subscribe for shares in the Company.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company may not in aggregate exceed 762,429,300 shares, being 10.00% of the issued share capital of the Company as at 25 May 2012, i.e. the date of adoption of the New Scheme.

The subscription price per share on the exercise of options granted under the New Scheme shall be no less than the higher of (i) the nominal value of the shares; (ii) the closing price of the shares on the Stock Exchange on the date on which the options are granted (which must be a business day); and (iii) the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date on which the options are granted.

The purpose of the New Scheme is to attract, retain and motivate talented participants to strive for future development and expansion of the Group. The New Scheme shall be an incentive to encourage the participants to perform their best in achieving the goals of the Group and allow the participants to enjoy the results of the Company attained through their efforts and contributions.

Unless approved by shareholders in general meeting, the total number of shares issued and to be issued upon exercise of the options granted under the New Scheme (including exercised, cancelled and outstanding options) to each grantee in any 12-month period shall not exceed 1.00% of the total number of shares of the Company in issue at the relevant time.

An option may be exercised in accordance with the terms of the New Scheme at any time during the period to be notified by the Board to each grantee (provided that the period within which an option must be exercised shall not be more than ten years commencing on the date upon which the relevant option is granted), subject to any restrictions as may be imposed by the Board on the exercise of an option during the period in which an option may be exercised. A consideration of HK$1 will be payable upon acceptance of the offer.

As at the date of this report, the total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company was 762,429,300 shares, which represented 10.00% of the issued share capital of the Company as at the date of this report.

## CAPITAL STRUCTURE

During the reporting period, certain holders of the remaining convertible notes in an aggregate principal amount of HK$306,000,000 exercised their options to convert the convertible notes into ordinary shares in the Company at a conversion price of HK$0.1 per share. As a result of the conversion of the convertible notes, the number of the Company's issued shares was increased by 3,060,000,000 shares. As at 30 June 2012, the number of the Company's issued shares was 7,624,293,000 shares.

As at 30 June 2012, the Group's gearing ratio calculated on the basis of convertible notes, bank and other borrowings of approximately HK$82.96 million (31 December 2011: approximately HK$597.32 million) and total assets of approximately HK$696.84 million (31 December 2011: approximately HK$692.66 million), was 10.64% (31 December 2011: 46.30%).

## EVENTS AFTER THE REPORTING PERIOD

Subsequent to 30 June 2012, the Company has issued announcements on 17 August 2012 and 27 August 2012 in connection with, inter alia, the proposed capital reorganisation and issuance of convertible notes, the summary of which were as follows:

(a) The Company intends to put forward for approval by the shareholders of the Company of the proposed capital reorganisation of the Company ("Capital Reorganisation") which involves the following:

- share consolidation: every 4 existing shares of US$0.001 each in the issued share capital of the Company will be consolidated into one consolidated share of par value US$0.004;

- capital reduction: upon the share consolidation becoming effective, the par value of each issued consolidated share will be reduced from US$0.004 to US$0.001 by cancellation of US$0.003 of the paid-up capital of each issued consolidated share; and

- share premium reduction: the entire amount standing to the credit of the share premium account of the Company as at 30 June 2012 will be reduced and cancelled.

(b) On 16 August 2012, the Company has entered into a placing agreement (as supplemented and amended by a side letter dated 27 August 2012) (the "CN Placing Agreement") with Kingston Securities Limited as placing agent, pursuant to which, the Company has conditionally agreed to place convertible notes in the principal amount of HK$120,000,000 on a fully underwritten basis (the "Placing") which will carry a right to convert into conversion shares of the Company at the conversion price of, subject to adjustment, HK$0.12 per share after Capital Reorganisation becoming effective. The Group intends to apply the net proceeds obtained from the Placing for the redemption of the outstanding convertible notes and remaining proceeds as funds for business operations and development of the Group.

The proposed Capital Reorganisation and Placing are subject to approval by the Stock Exchange and the shareholders of the Company.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

There have been no significant changes in the Group's policy in terms of exchange rate exposure. The Group operates mainly in Hong Kong and the PRC. Most of the transactions are denominated in Hong Kong dollars ("HKD"), Renminbi ("RMB") and United States dollars ("USD"). The exchange rates of USD and RMB against HKD are relatively stable. Hence, the Group neither anticipate any significant exchange risk exposure nor have a foreign currency hedging policy. However, management of the Group will monitor foreign exposure closely and consider the usage of hedging instruments when necessary.

## PLEDGE OF ASSETS

At the end of the reporting period, no pledge of assets was made by the Group.

## EMPLOYEES AND REMUNERATION POLICIES

As of 30 June 2012, the Group had approximately 63 full time management, administrative and operation staff in the PRC and Hong Kong.

The Group provides competitive remuneration packages with attractive discretionary bonus to employees. The Group regularly reviews its remuneration packages in light of the overall development of the Group as well as the market conditions. In addition, the Group has adopted the share option scheme for eligible employees (including directors) to provide incentives to those with outstanding performance and contribution to the Group.

# ADDITIONAL INFORMATION

## Interim Dividend

The Board did not recommend the payment of interim dividend in respect of the six months ended 30 June 2012 (six months ended 30 June 2011: Nil). Accordingly, no closure of register of members of the Company is proposed.

## Disclosure of Interest

### Directors' Interests in Shares and Underlying Shares

At 30 June 2012, the interests of the directors, the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in Appendix 10 to the Listing Rules, were as follows:

**Long Positions in the Shares and Underlying Shares**
*Ordinary shares of US$0.001 each of the Company*

| Name of director | Capacity | Number of issued ordinary shares held | Approximate percentage of the issued share capital of the Company (Note 1) |
|---|---|---|---|
| Mr. Ip Cheng Kuong | Interests in controlled corporation (Note 2) | 297,120,000 | 3.90% |

Note 1: The percentage was calculated based on the Company's issued share capital of 7,624,293,000 shares as at 30 June 2012.

Note 2: Mr. Ip Cheng Kuong has notified the Company that he is interested in those shares of the Company held by Global Zone International Limited, a company of which 51% interests are owned by him.

Save as disclosed above, none of the directors, the chief executive of the Company nor their associates has any interest in any shares, underlying shares or debentures of the Company or any of its associated corporations, as recorded in the register maintained by the Company pursuant to section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 30 June 2012.

### Substantial Shareholders' Interests

As at 30 June 2012, the register of the substantial shareholders (other than a director or chief executive of the Company) maintained under Section 336 of the SFO shows that the Company had been notified of the following shareholders' interests in its issued share capital:

#### Long Positions in the Shares

*Ordinary shares of US$0.001 each of the Company*

| Name of shareholder | Capacity | Number of shares interested | Approximate percentage of the issued share capital of the Company (Note) |
|---|---|---|---|
| So Chi Ming | Beneficial owner | 1,000,000,000 | 13.12% |
| Ng Leung Ho | Beneficial owner | 600,000,000 | 7.87% |

Note: The percentages were calculated based on the Company's issued share capital of 7,624,293,000 shares as at 30 June 2012.

Save as disclosed above, as at 30 June 2012, the Company has not been notified by any other persons (other than directors or chief executive of the Company) who has interests in the shares or underlying shares of the Company which were to be recorded in the register required to be kept by the Company under Section 336 of the SFO.

## Corporate Governance

The Board is committed to maintaining a high standard of corporate governance in the best interests of the shareholders of the Company. The corporate governance principles adopted by the Company emphasized on a highly efficient board of directors, sound internal controls and the transparency and accountability to all shareholders of the Company.

As disclosed in the Corporate Governance Report contained in the Company's 2011 annual report, the Company has applied the principles under the Code on Corporate Governance Practices (the "Former Code"), and has been in compliance with relevant provisions of the Former Code save for the deviations disclosed therein.

The Stock Exchange has made various amendments to the Former Code set out in Appendix 14 of the Listing Rules, and the revised code, namely the "Corporate Governance Code and Corporate Governance Report" (the "Revised Code"), became effective on 1 April 2012. The Company has been in compliance with relevant provisions of the Former Code from 1 January 2012 to 31 March 2012 and the Revised Code from 1 April 2012 to 30 June 2012 (collectively, the "Codes"), save for the deviations disclosed below.

Under Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. Prior to 30 March 2012, all of the independent non-executive directors of the Company ("INEDs" or individually "INED") were not appointed for a specific term. However, all directors of the Company are subject to retirement and rotation once every three years in accordance with the Bye-laws of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are comparable with those in the Code.

On 30 March 2012, letters of appointment were entered into between the Company and each of the INEDs. Pursuant to the terms of the letters of appointment, all existing INEDs continue to be INEDs of the Company for a period of two years from 1 April 2012 and subject to retirement and rotation once every three years in accordance with the Bye-laws of the Company.

## Audit Committee

The audit committee comprises three INEDs, namely Ms. Ma Yin Fan, Mr. Leung Hoi Ying and Mr. Yu Pan.

During the reporting period, the audit committee of the Company has reviewed with management of the Company on internal controls and financial reporting matters related to the preparation of the unaudited condensed financial statements for the six months ended 30 June 2012.

## Remuneration Committee

The remuneration committee comprises three INEDs, namely Ms. Ma Yin Fan, Mr. Leung Hoi Ying and Mr. Yu Pan.

It is primarily responsible for offering advice to the Board on the matters pertaining to the remuneration policy and remuneration structure of the directors and senior management of the Company.

## Nomination Committee

On 26 March 2012, the Company established a nomination committee with terms consistent with the Code Provisions A.5.1–A.5.4. The nomination committee comprises one executive director of the Company and two INEDs, namely Mr. Yeung Kwok Yu, Mr. Leung Hoi Ying and Mr. Yu Pan.

The nomination committee is primarily responsible for (i) reviewing the structure, size and composition (including the skills, knowledge and experiences) of the Board on a regular basis at least annually; (ii) making recommendations to the Board regarding on any proposed changes to the Board to complement the Company's corporate strategy; (iii) identifying individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships; (iv) assessing the independence of independent non-executive directors; and (v) making recommendations to the Board on relevant matters relating to the appointment or reappointment of directors and succession planning for directors, in particular the chairman and the chief executive officer.

## Model Code for Securities Transactions by Directors

During the reporting period, the Company has adopted a code of conduct regarding securities transactions by directors of the Company on terms no less exacting than the Model Code. Having made specific enquiries to all directors of the Company, all directors have complied with the required standards of dealings as set out in the Model Code and the Company's own code of conduct during the reporting period.

## Change of Directorship

The followings are changes in the role of the directors in the Company since 1 January 2012:

- Mr. Zhang Xi, the joint chairman, an executive director and a member of the remuneration committee of the Company, resigned with effect from 21 May 2012. Mr. Ip Cheng Kuong, the joint chairman and executive director of the Company, became the sole chairman of the Company with effect from the same day.

- Mr. Fei Phillip, the vice chairman and an executive director of the Company, resigned with effect from 30 April 2012.

- Mr. Wu Zhuo Tong was appointed as a non-executive director of the Company with effect from 28 May 2012.

- Mr. Yeung Tsoi San, the chief executive officer and an executive director of the Company, was removed as chief executive officer and executive director with effect from 4 July 2012 and 12 July 2012 respectively.

## Review of Accounts

The audit committee has reviewed with management and the external auditor the accounting principles and practices adopted by the Group and discussed internal controls, and financial reporting matters including the review of the unaudited interim financial statements for the period under review. The external auditor has reviewed the interim financial information for the six months ended 30 June 2012 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

## Purchase, Sale or Redemption of Listed Securities of the Company

For the six months ended 30 June 2012, neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any listed securities of the Company.

## Publication of Unaudited Interim Results

The Company's 2012 interim report is published on the website of the Stock Exchange at www.hkex.com.hk and on the Company's website at www.cnepgl.com.

## APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere appreciation to our shareholders for their continuous supports. I would also extend my gratitude and appreciation to the Group's management and staff members for their dedication and hard work during the period.

By Order of the Board
**Yeung Kwok Yu**
*Executive Director*

Hong Kong, 27 August 2012