CHINA ENERGINE INTERNATIONAL (HOLDINGS) LIMITED
中國航天萬源國際(集團)有限公司*

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 1185)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2012

RESULTS

The Board of Directors of China Energine International (Holdings) Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2012 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	NOTE	**1.1.2012 to 30.6.2012 *HK$'000* *(Unaudited)***	1.1.2011 to 30.6.2011 *HK$'000* *(Unaudited)*
Turnover	3	**248,062**	157,120
Cost of sales		**(246,782)**	(147,976)
Gross profit		**1,280**	9,144
Other income		**33,873**	11,996
Other gains and losses	4	**17,122**	(3,897)
Distribution costs		**(13,301)**	(4,466)
Administrative expenses		**(76,339)**	(49,304)
Finance costs	5	**(39,666)**	(27,302)
Share of results of associates		**719**	12,666
Share of results of jointly controlled entities		**114,061**	83,171
Profit before taxation	6	**37,749**	32,008
Taxation	7	**(4,701)**	(3,199)
Profit for the period		**33,048**	28,809

	NOTE	1.1.2012 to 30.6.2012 HK$'000 (Unaudited)	1.1.2011 to 30.6.2011 HK$'000 (Unaudited)
Other comprehensive income			
– change in fair value of available-for-sale financial asset		**3,348**	—
– exchange difference arising on translation to presentation currency		**—**	56,448
		36,396	85,257
Profit (loss) for the period attributable to:			
Owners of the Company		**39,603**	34,000
Non-controlling interests		**(6,555)**	(5,191)
		33,048	28,809
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**42,951**	87,357
Non-controlling interests		**(6,555)**	(2,100)
		36,396	85,257
Earnings per share - Basic	9	**HK1.00 cents**	HK0.86 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2012

	NOTE	**30.6.2012**	31.12.2011
		HK$'000	*HK$'000*
		(Unaudited)	*(Audited)*
Non-current assets			
Property, plant and equipment		**449,022**	450,099
Investment property		**37,680**	37,680
Deposits paid for acquisition of property, plant and equipment		**—**	14,293
Goodwill		**4,903**	4,903
Intangible asset		**65,123**	69,842
Deferred tax assets		**4,243**	3,985
Interests in associates		**348,854**	370,566
Interests in jointly controlled entities		**1,239,558**	1,272,882
Available-for-sale financial asset		**119,051**	—
		2,268,434	2,224,250
Current assets			
Inventories		**416,522**	469,638
Trade and other receivables	10	**879,363**	558,342
Amounts due from associates		**28,094**	45,856
Amounts due from jointly controlled entities		**151,436**	161,795
Pledged bank deposits		**14,673**	22,606
Fixed bank deposits		**—**	12,409
Bank balances and cash		**342,053**	356,562
		1,832,141	1,627,208

	NOTE	30.6.2012	31.12.2011
		HK$'000	HK$'000
		(Unaudited)	(Audited)
Current liabilities			
Trade and other payables	11	**432,280**	525,090
Taxation payable		**4,287**	1,674
Amounts due to associates		**49,694**	63,708
Government grants		**249**	249
Warranty provision		**29,069**	22,380
Borrowings - amount due within one year		**776,400**	530,400
		1,291,979	1,143,501
Net current assets		**540,162**	483,707
Total assets less current liabilities		**2,808,596**	2,707,957
Non-current liabilities			
Borrowings - amount due after one year		**860,148**	796,548
Deferred tax liabilities		**17,843**	19,188
Government grants		**7,706**	7,830
		885,697	823,566
Net assets		**1,922,899**	1,884,391
Capital and reserves			
Share capital		**396,900**	396,900
Reserves		**1,369,845**	1,327,124
Equity attributable to owners of the Company		**1,766,745**	1,724,024
Non-controlling interests		**156,154**	160,367
Total equity		**1,922,899**	1,884,391

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 the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment property and available-for-sale financial assets, which are measured at fair value, as appropriate.

Except disclosed below, 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 annual financial statements for the year ended 31 December 2011.

Available-for-sale financial asset

In the current period, the Group acquired equity investments and designated them as available-for-sale financial assets. Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The Group designated the investment in Huadian Fuxin Energy Corporation Limited (“Huadian Fuxin”) as available-for-sale financial asset as the shares of Huadian Fuxin are listed on the Stock Exchange of Hong Kong and the management has no intention to trade the shares subscribed.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in asset revaluation reserve, until the financial asssets are disposed of or are determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the asset revaluation reserve is reclassified to profit or loss.

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.

Amendments to HKAS 12 Deferred tax: Recovery of underlying assets

Under the amendments to HKAS 12 "Deferred tax: Recovery of underlying assets", investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment property" are presumed to be recovered through sale for the purpose of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment property using the fair value model. As a result of the application of the amendments to HKAS 12, the directors of the Company reviewed the Group's investment property portfolios and concluded that the Group's investment property was held under a business model whose objective was to consume substantially all of the economic benefits embodied in the investment property over time, and that the presumption set out in the amendments to HKAS 12 is rebutted. The Group continues to recognise the deferred tax arising on the fair value change of the investment property in the condensed consolidated financial statements.

The application of the above 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 Group currently organises its operations into five operating and reportable segments. They represent five major lines of businesses engaged by the Group. Segment results represent the profit before taxation earned or loss before taxation incurred by each segment, excluding finance costs, share of results of certain jointly controlled entities which cannot be allocated, unallocated other income and corporate expenses such as central administration costs and directors' remuneration. Share of profit of associates of HK$719,000 (1.1.2011 to 30.6.2011: HK$12,666,000) and share of loss (1.1.2011 to 30.6.2011: profit) of certain jointly controlled entities of HK$2,022,000 (1.1.2011 to 30.6.2011: HK$222,000) were allocated to operating and reportable segments. This is the measure reported to the Company's Executive Directors for the purposes of resources allocation and assessment of segment performance.

The following is an analysis of the Group's revenue and results by operating and reportable segment for the period under review:

Six months ended 30 June 2012

	Wind Energy Related Products	Operation of Wind Farm	Rare-earth Permanent Magnet Motor ("REPM") Products	Trading of materials	Tele-communication	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover						
External sales	**128,432**	**15,827**	**14,564**	**73,533**	**15,706**	**248,062**
Result						
Segment result	**(50,737)**	**10,469**	**953**	**70**	**6,137**	**(33,108)**
Unallocated other income						**27,728**
Unallocated corporate expenses						**(33,288)**
Finance costs						**(39,666)**
Share of results of jointly controlled entities						**116,083**
Profit before taxation						**37,749**

Six months ended 30 June 2011

	Wind Energy Related Products	Operation of Wind Farm	REPM Products	Trading of materials	Tele-communication	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover						
External sales	5,403	16,435	9,014	100,793	25,475	157,120
Result						
Segment result	(23,475)	32,465	(8,841)	381	(7,030)	(6,500)
Unallocated other income						4,359
Unallocated corporate expenses						(21,498)
Finance costs						(27,302)
Share of results of jointly controlled entities						82,949
Profit before taxation						32,008

4. OTHER GAINS AND LOSSES

	1.1.2012 to 30.6.2012	1.1.2011 to 30.6.2011
	HK$'000	*HK$'000*
Gain (loss) on disposal of interests in associates	**11,801**	(882)
Recovery of trade receivables previously impaired (impairment loss recognised in respect of trade receivables)	**3,613**	(3,564)
Net exchange gain recognised	**1,102**	853
Gain (loss) on disposal of property, plant and equipment	**606**	(304)
	17,122	(3,897)

5. FINANCE COSTS

	1.1.2012 to 30.6.2012	1.1.2011 to 30.6.2011
	HK$'000	*HK$'000*
Interests on bank and other loans:		
– wholly repayable within five years	**37,173**	25,099
– repayable over five years	**2,493**	2,203
	39,666	27,302

6. PROFIT BEFORE TAXATION

	1.1.2012 to 30.6.2012	1.1.2011 to 30.6.2011
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**16,038**	14,930
Amortisation of intangible assets	**5,998**	—
Allowance for obsolete inventories	**—**	1,479
Interest income		
– bank balances	**(2,851)**	(1,732)
– advance to a jointly controlled entity	**(2,302)**	(1,051)
Other income		
– gain on disposal of a property development project (note 10)	**(22,185)**	—

7. TAXATION

	1.1.2012 to 30.6.2012	1.1.2011 to 30.6.2011
	HK$'000	*HK$'000*
The tax charge comprises:		
Current tax:		
PRC Enterprise Income Tax ("EIT")	**4,458**	3,471
Deferred taxation	**243**	(272)
	4,701	3,199

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

Taxation arising in the PRC is recognised based on EIT rate of 25% (2011: 25%) for the six months ended 30 June 2012.

8. DIVIDENDS

No dividends were paid or declared for both periods. The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2012.

9. EARNINGS PER SHARE - BASIC

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

	1.1.2012 to 30.6.2012	1.1.2011 to 30.6.2011
	HK$'000	*HK$'000*
Profit for the period for the purpose of basic earnings per share – attributable to the owners of the Company	**39,603**	34,000

	Number of shares 2012 & 2011
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,968,995,668

No diluted earnings per share has been presented as there were no potential ordinary shares outstanding for both periods.

10. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK$229,517,000 (31.12.2011: HK$169,502,000). The amount of trade receivables at 30 June 2012 included retention receivables for the sales of wind turbines to third parties of HK$28,624,000 (31.12.2011: HK$28,624,000). The balances will be settled upon the completion of warranty period of 3 years. For the remaining balances, the Group allows credit periods for 90 days on average to its customers for sales of goods and rendering of services. At the discretion of the executive directors, several major customers were allowed to settle their balances beyond the credit terms up to one year. The following is an ageing analysis of trade receivables net of allowances, presented based on the invoice date at the end of the reporting period:

	30.6.2012	31.12.2011
	HK$'000	*HK$'000*
Within 30 days	**99,421**	48,503
Between 31 and 90 days	**16,328**	7,740
Between 91 and 180 days	**5,294**	3,821
Between 181 and 365 days	**194**	389
Over 1 year	**108,280**	109,049
	229,517	169,502

Included in the Group's other receivables at 30 June 2012 are dividend receivables from jointly controlled entities and associates with aggregate carrying amount of HK$173,874,000 (31.12.2011: HK$7,118,000), deposits paid for purchase of inventories for subsidiaries in the PRC of HK$165,848,000 (31.12.2011: HK$85,013,000), bills receivable of HK$112,920,000 (31.12.2011: HK$121,696,000) and consideration receivable from transferring property development project of HK$11,400,000 (31.12.2011: nil). The consideration receivable from transferring property development project was settled subsequent to the reporting period.

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$241,851,000 (31.12.2011: HK$246,043,000). The following is an ageing analysis of trade payables:

	30.6.2012	31.12.2011
	HK$'000	*HK$'000*
Within 30 days	**40,790**	223,628
Between 31 and 90 days	**26,253**	11,720
Between 91 and 180 days	**118,597**	2,598
Between 181 and 365 days	**53,238**	3,069
Over 1 year	**2,973**	5,028
	241,851	246,043

Included in the Group's other payables at 30 June 2012 are accrual for construction work of HK$5,034,000 (31.12.2011: HK$11,739,000), receipt in advance from customers of HK$85,797,000 (31.12.2011: HK$122,905,000) and dividend payable to non-controlling interests of a subsidiary of HK$3,888,000 (31.12.2011: HK$5,220,000).

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS SUMMARY

As of 30 June 2012, the Group's turnover for the first half of 2012 amounted to HK$248.06 million with a profit for the period of HK$33.05 million as compared to that for the year 2011 of HK$157.12 million with a profit for the period of HK$28.81 million respectively, representing 58% increase in turnover and 15% increase in profit for the period. The turnover for the period comprised sale of wind energy related products of HK$128.43 million, sale of electricity generated from wind farm of HK$15.83 million, sale of rare earth permanent-magnet motor products of HK$14.56 million, sale of chemical materials of HK$73.53 million and sales of HK$15.71 million related to telecommunication business whereas that of the same period last year comprised sale of wind energy related products of HK$5.40 million, sale of electricity generated from wind farm of HK$16.44 million, sale of rare-earth permanent-magnet motor products of HK$9.01 million, sale of chemical materials of HK$100.79 million and sales of HK$25.48 million related to telecommunication business.

BUSINESS REVIEW

Business of Wind Energy

In 2012, the directdrive wind turbine, on the strength of its simple structure, high reliability, high efficiency and low operation and maintenance costs, had participated in the fierce competition in the domestic wind turbine market. With the market price drop having steadied, the Group proactively addressed these challenges by giving full play to the advantages of the technology, quality and service of CASC directdrive wind turbines. In line with this, the Group capitalised on its products' leading edge and achieved cost control by adopting the strategy of technology advancement and batch production through research and development, thereby achieving high supply chain performance and cost effectiveness. In addition, through Inner Mongolia Wind Turbine General Assembling Plant, Gansu Wind Turbine General Assembling Plant and Jiangsu Energine Wind Turbine General Assembling Plant, the Group adopted the strategy of establishing good relationship with several provincial and autonomous region governments and leveraging provincial and autonomous regions' quotas for wind energy to obtain more wind resources in seeking more production orders for wind turbines, thereby increasing our market share. In particular, the Group's successful bid in June 2012 relating to the China Huadian Group's 200,000KW wind turbine in Gansu (about 100 2MW excitation magnetic directdrive wind turbines) and the entering into contract with China Guodian Kehuan Group in July as to order of 150 1.5MW directdrive wind turbines will provide a solid foundation for the wind turbine batch production of the Group in the second half of this year and in the next year, bringing considerable income for the Group.

Since the directdrive wind turbines have gearless drive and are characterised with the use of low-speed large-torque generators and full power convertor and strong resistance to grid voltage fluctuation, their advantages include low wear and tear, high efficiency of electricity generation, small size, light, ready to repair and low operating cost as compared to the traditional wind turbines. As such, the directdrive wind turbines, in particular, the primary promoted makes of 1.5MW and 2MW excitation magnetic directdrive wind turbines in the next phase, with no reliance on rare-earth permanent magnetic motors in avoiding the operational risks arising from the state revision policies on such strategic materials, pave the way for a promising market outlook.

In the first half of 2012, the Group completed the production of 25 2MW excitation magnet directdrive wind turbines and 66 1.5MW excitation magnet directdrive wind turbines; where 25 2MW wind turbines are for the supply to China Huadian Group's wind farm in Baiyin City, Gansu and 66 1.5MW wind turbines are for the supply to China Datang Group's wind farm in Guazhou, Gansu, of which 16 2MW wind turbines have been installed and its related revenues recognised.

Research and Development of Technology

In the first half of 2012, the Group ascertained the 1.5MW and 2MW excitation magnetic directdrive wind turbines as the primary promoted makes in the next phase. According to the wind farm environments in terms of wind speed, air density and altitude, the Group has been pursuing the research and development of the 77-metre, 83-metre and 88-metre rotor diameter for the 1.5MW excitation magnetic directdrive wind turbine and the 90-metre, 93-metre, 97-metre and 101-metre rotor diameter for the 2MW excitation magnetic directdrive wind turbine.

The Science and Technology Committee established in September 2011 formed a research and development project team on 2MW excitation magnetic directdrive wind turbine. In June 2012, the installation of the prototype of 2MW excitation magnetic directdrive wind turbine was completed and the batch production of this model was expected to be commenced at the end of the year.

Production Management

In 2012, the management system and operation process of batch production were further enhanced in the course of batch production of 1.5MW excitation magnetic and 2MW permanent directdrive wind turbines. The driving department for scientific research and production management was clarified in strengthening planning management. Through project planning and deployment manoeuvring, batch production of wind turbines was assured to be conducted in an orderly manner under planned manoeuvring. The process management was smoothed out, with clarified job responsibility scopes among departments for coordination, enabling a high-efficiency operation on personnel, logistics, cash flow and information flow in aspects of sales, planning, design, production, procurement and finance as well as an effective closed-loop management and control.

In 2012, the Group's focus of production management is on strengthening of quality assurance management. The sense of quality assurance cost was established through the formation of the quality engineer team. In pursuing in-depth study of the properties of wind turbine parts mingling with product key controls and actual production needs, the production monitoring and receipt examination mechanisms of the parts are being determined and the process quality control principles are being formulated in effort to enhance the quality assurance of wind turbine gears and control quality management costs. A severe quality and safety issues reporting system for wind farm gear is being formulated, ensuring that all quality issues in the operation of wind turbines entered in the control ledger set up are timely and accurately tackled and the subsequent perfection of the technicality.

Trading of Materials

In 2012, BEI continued the trading business of raw materials. However, the scale of the material trading business shrunk in effort to control the risk arising from the price volatility of the material trade as compared to the corresponding period of last year.

Wind Farm Operations

The Group's wind farm operations comprise wind farm controlled and operated by the Group of Liaoning Benxi: the CASC Long Yuan (Benxi) wind farm installed with 29 sets of 850KW wind turbines with a capacity of 24,650KW in total; three wind farms invested and constructed by the Group of Jilin Longyuan: the Jilin Tongyu wind farm installed with 236 sets of 850KW wind turbines with a capacity of 200,000KW in total; Jiangsu Longyuan: the Jiangsu Yudong wind power field installed with 100 sets of 1.5MW wind turbines with a capacity of 150,000KW in total and Inner Mongolia Xinghe: the Inner Mongolia Xinghe wind farm, installed with 55 sets of 900KW directdrive wind turbines with a capacity of 49,500KW in total.

In addition, Energine Min Jian New Energy Investment Co., Ltd., the Group’s associated company, through its subsidiary, Yinkou Wind Power Generation Co., Ltd., had formally been engaged in offshore and land wind power projects in eastern Fujian. It secured market orders for the Group for purchase of the Group’s existing make of 2MW directdrive wind turbines.

In the first half of 2012, wind farm operations realised total profits of HK$10.47 million.

Business of New Materials

Jiangsu Aerospace Wan Yuan REPM Motor Co., Ltd., controlled and operated by the Group, is a high-tech enterprise which specialises in research and development, manufacture, and sales of rare-earth permanent-magnet gearless traction machines for elevators. The “航天萬源” branded rare-earth permanent-magnet gearless traction machines for elevators, and its driving control system self-developed by the company’s research and development had dominated a technological gap of the domestic gearless elevator sector.

Wuxi CASC Energine Xindali Electricity Co., Ltd. (“Wuxi Wind Turbine Plant”), the Group’s associated company, is engaged in batch production of 900KW and 1.5MW generators. Its self-developed 1.5MW excitation magnetic directdrive generator with application of many new technologies has been awarded the First Prize of Outstanding Contribution to Science and Technology Progress in 2011 by the China Academy of Launch Vehicle Technology. Therefore, the Group is equipped with the capacity to supply key components of wind turbines, including blades and generators, thereby reducing its reliance on upstream suppliers of the wind turbine supply chain for purchasing generators and controlling the wind turbine supply chain risk and production cost.

Business of Automotive Component Parts

Automotive engine management systems

Beijing Delphi Wan Yuan Engine Management Systems Co., Ltd, a jointly controlled entity, is a leading supplier in the domestic automotive electronic fuel injection market with a stable market share, ranking the second nationwide and supplied to almost all major domestic automobile manufacturers. As for export sales, its products are sold to automobile manufacturers in Europe and North America.

The jointly controlled entity recorded sales revenue of HK$1,653.75 million in the first half of 2012, representing an increase of HK$27.06 million over the corresponding period of last year. Its sales expansion were successfully achieved.

Automotive sealing systems

Beijing Wanyuan-Henniges Sealing Systems Co., Ltd., a jointly controlled entity, is a company specialising in manufacturing of medium-to-high class automotive sealing products in the domestic market. Its quality control standards are on par with the international advanced level. The jointly controlled entity not only realises the development on and complement to the medium-to-high class models in the domestic market, but also attains the standards applicable to Germany, France, the United States, Japan and South Korea with its products.

The jointly controlled entity recorded sales revenue of HK$333.80 million in the first half of 2012, representing an increase of HK$82.04 million over the corresponding period of last year.

Telecommunication Business

The telecommunication products of the Group cover categories such as Beidou GPS dual-mode soft- and hardware comprehensive solution packages and wireless communication.

PROSPECTS

Looking ahead, the Group will speed up the progress in domestic production of wind turbines, continue to sell in both domestic and foreign wind energy markets, conduct batch production of 900KW, 1.5MW and 2.0MW directdrive wind turbine products in expanding the business scale; focus on the development of 3MW and 5MW wind turbines to tie in with the Twelfth Five-year Plan, capture the share of the potential wind turbine market in future and identify cooperation opportunities with other large-scale power generation groups; refine the batch production of rare-earth motors; and secure financing for the Group. We shall broaden the scale of energy conservation and environmental protection business, as well as strengthen its internal management to ensure the sustainable development of the Group and create greater shareholder worth and repute.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 30 June 2012, the Group had 32 employees (31 December 2011: 35 employees) in the Hong Kong head offices and 749 employees (31 December 2011: 463 employees) in the Mainland China offices. Remuneration of employee is determined according to individual employee's performance and the prevailing trends in different areas and reviewed on an annual basis. The Group also provides Mandatory Provident Fund and medical insurance to its employees. In addition, discretionary performance bonus is available at the discretion of the Directors.

FINANCIAL REVIEW

Liquidity and Financial Resources

Total borrowings of the Group as at 30 June 2012 were HK$1,636,548,000 (31 December 2011: HK$1,326,948,000), of which HK$512,400,000 (31 December 2011: HK$374,400,000) was floating-rate borrowing and the remaining was fixed-rate borrowing. All borrowings of the Group were determined at market interest rate. The Group has not issued any financial instruments for hedging or other purposes.

Gearing ratio (total borrowings to shareholders' equity) as at 30 June 2012 was 93% (31 December 2011: 77%).

Exchange and Other Exposures

Most of the Group's business transactions were conducted in Renminbi, Hong Kong dollars and United States dollars. The Group expected that the exposure to exchange rate fluctuation was not significant and therefore has not engaged in any hedging activities.

As at 30 June 2012, the Group provided a guarantee of HK$24,000,000 (31 December 2011: nil) to a bank for banking facilities granted to an associate of the Group.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

The Group has complied with all principles as set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules (the "Code"), which became applicable to the Group in respect of the six month period ended 30 June 2012 under review, and complied with the relevant code provisions in the Code throughout the period, with the exception of one deviation from the Code Provision A.4.1 of the Code which stipulates that Non-executive Directors should be appointed for a specific term subject to re-election.

All of the Non-executive Directors of the Company are not appointed for a specific term, except that Independent Non-executive Directors are of a specific term of 3 years, but are subject to retirement and rotation and re-election at the Company's Annual General Meeting in accordance with the retirement provisions under the Articles of Association of the Company. The Company considers that sufficient measures have been taken in this regard to ensure that the Group's corporate governance practices are no less exacting than those in the Code.

Model Code for Securities Transactions by Directors

Throughout the six month period ended 30 June 2012, the Group has adopted the Model Code for Securities Transactions by Directors of Listed issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code for dealing in securities of the Group by the Directors. Having made specific enquiry, all the Directors confirmed that they have complied with the Model Code.

Independent Non-executive Directors

Throughout the six month period ended 30 June 2012, the Board at all times met the requirements of the Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules in appointment of a sufficient number of three Independent Non-executive Directors, representing one-third of the Board, one of whom has appropriate professional qualifications, accounting and financial management expertise.

The appointment of Independent Non-executive Directors adheres to the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. The Group has received in writing confirmations of their independence from each of the Independent Non-executive Directors and considers them to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgment. The Board considers that each of the Non-executive Director and Independent Non-executive Director brings his own relevant expertise to the Board.

Audit Committee

The Audit Committee of the Company set up comprises all of three Independent Non-executive Directors, Ms. Kan Lai Kuen, Alice, Mr. Wang Dechen and Mr. Gordon Ng and a Non-executive Director, Mr. Fang Shili. The principal duties of the Audit Committee include the review of the Company's financial reporting procedure, internal controls and results of the Group. The unaudited condensed consolidated interim financial statements have been reviewed by the Audit Committee and Deloitte Touche Tohmatsu, the external auditor of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six month period ended 30 June 2012.

By Order of the Board
Han Shuwang
Chairman

Hong Kong, 28 August 2012

As at the date hereof, the Board of the Company comprises Mr. Han Shuwang (Chairman), Mr. Wang Xiaodong (Vice-chairman), Mr. Li Guang and Mr. Wang Lijun as Executive Directors, Mr. Fang Shili and Ms. Zhang Jianhua as Non-executive Directors and Mr. Wang Dechen, Ms. Kan Lai Kuen, Alice and Mr. Gordon Ng as Independent Non-executive Directors.

* *for identification purpose only.*