fulbond

福邦控股

Fulbond Holdings Limited
福邦控股有限公司*

(Stock Code: 1041)

2010
INTERIM REPORT

* For identification purpose only

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors
Mr. Zhang Xi *(Chairman)*
Ms. Catherine Chen
(Managing Director)
Mr. Chiu Kong
(appointed on 20 July, 2010)
Mr. Yeung Kwok Yu
Mr. Kwan Kam Hung, Jimmy
Mr. Wah Wang Kei, Jackie
Mr. Lee Sun Man

Independent Non-executive Directors
Mr. Hong Po Kui, Martin
Ms. Ma Yin Fan
Mr. Leung Hoi Ying
Mr. Yu Pan

BOARD COMMITTEES

Audit Committee
Ms. Ma Yin Fan *(Chairlady)*
Mr. Hong Po Kui, Martin
Mr. Leung Hoi Ying
Mr. Yu Pan

Remuneration Committee
Mr. Hong Po Kui, Martin *(Chairman)*
Ms. Ma Yin Fan
Mr. Leung Hoi Ying
Mr. Yu Pan
Mr. Zhang Xi

COMPANY SECRETARY

Mr. Chow Kim Hang

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISER

Messrs. Tung & Co.

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

2807, 28th Floor
The Center
99 Queen's Road Central
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
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

1041

WEBSITE

www.fulbond.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the "Board"), I am pleased to present to you the interim results of Fulbond Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 June 2010 for your review.

FINANCIAL RESULTS

Revenue

In the first half of 2010, the Group's revenue from timber business ("continuing operations") and food processing and distribution business ("discontinued operation") decreased to approximately US$7,754,000 from approximately US$23,011,000 in the corresponding period in 2009. This disappointing result was mainly due to only 19 days' revenue of the discontinued operation was taken into account during the current period.

Segment Results

The turnover of the timber business for the reporting period declined to approximately US$5,473,000 from approximately US$6,323,000 in the corresponding period in 2009, representing a drop of 13.44%. The segment result of the timber business had suffered a loss of approximately US$3,777,000 while a loss of approximately US$642,000 was recorded in the corresponding period in 2009.

For the food processing and distribution business, the turnover for the period from 1 January 2010 to 19 January 2010 was approximately US$2,281,000 while the turnover for the six months ended 30 June 2009 was approximately US$16,688,000. The segment result of the food processing and distribution business was a loss of approximately US$101,000 for the period under review whereas that for the same period in 2009 was a gain of approximately US$228,000.

Cost of Sales

The Group's cost of sales from continuing and discontinued operations for the reporting period decreased to approximately US$10,431,000 from approximately US$20,193,000 in the corresponding period in last year.

Gross Loss

The Group recorded a gross loss of approximately US$2,677,000 during the current period whereas a gross profit of approximately US$2,818,000 was achieved in last year's same period. The major reason for the change was mainly due to the allowance for slow-moving inventories of approximately US$3,644,000 (six months ended 30 June 2009: Nil) made in the reporting period.

Other Income

The Group's other income from continuing and discontinued operations for the period under review dropped to approximately US$220,000 from approximately US$571,000 in the corresponding period in 2009.

Other Gains and Losses

Other losses of the Group amounted to approximately US$51,544,000 for the reporting period whereas the Group recorded a gain of approximately US$2,705,000 in the corresponding period in last year. The significant loss mainly consisted of the net losses of approximately US$956,000 in change in fair values of held-for-trading investments, the net losses of approximately US$55,356,000 on fair value change of convertible notes and warrants and a gain of approximately US$4,768,000 on early redemption of convertible notes.

Selling and Distribution Costs

The Group's selling and distribution costs from continuing and discontinued operations for the reporting period decreased to approximately US$532,000 from approximately US$1,103,000 for the same period in 2009.

Administrative Expenses

The Group's administrative expenses from continuing and discontinued operations for the reporting period rose to approximately US$3,677,000 from approximately US$3,455,000 for the corresponding period in 2009.

Finance Costs

The Group's finance costs from continuing and discontinued operations for the reporting period dropped to approximately US$2,082,000 from approximately US$3,784,000 in the corresponding period in 2009. The significant saving was mainly due to the redemption of certain convertible notes which resulted in the decrease in interest expenses on the convertible notes.

Loss for the Period and Loss Per Share

The Group's loss attributable to owners of the Company for the period under review increased to approximately US$58,837,000 from approximately US$2,024,000 in last year's. The significant loss was mainly due to the net losses on fair value change of the derivatives financial instruments as well as allowance made for slow-moving inventories. Basic loss per share from continuing and discontinued operations of the Group was increased from approximately US0.016 cent per share for the six months ended 30 June 2009 to approximately US0.218 cent per share for the six months ended 30 June 2010. Meanwhile diluted loss per share was approximately US0.257 cent per share for the six months ended 30 June 2010 and that for the six months ended 30 June 2009 was approximately US0.024 cent per share.

BUSINESS REVIEW

In light of the tough economic climate and unsatisfactory financial performance of the food processing and distribution business, the Group disposed of its entire equity interests in Prowealth Holdings Group Limited ("Prowealth") and its subsidiaries (the "Disposal") during the period under review. Upon the Disposal, the Group may efficiently re-allocate its resources to its principal operations and/or other investment opportunities. In view of that the Group's history in the food processing and distribution business was much shorter than that in the Group's core timber business; and that the Group was actively pursuing mergers and acquisitions to diversify the Group's business to seek more profitable opportunities, the Directors considered that the Disposal would allow re-allocation of resources efficiently in order to enhance the principal operations of the Group and/or fund other possible investment opportunities, which may in turn provide better value to the shareholders.

Timber Business

For the timber business, sales are mainly derived in the People's Republic of China (the "PRC") and exported to Middle East, Europe and Asia. The revenue of timber business decreased to approximately US$5,473,000, representing a decline of 13.44% as compared with approximately US$6,323,000 for the corresponding period in 2009. The Group will continue to broaden the customer base and enhance the products quality so as to improve the performance of the Group.

Food Processing & Distribution Business

Revenue generated from the food processing and distribution business has been diminishing since the acquisition by the Group and the food processing and distribution business has shifted from profit making prior to the acquisition to loss making thereafter. Taking into account the expected continuation of the deterioration of the performance of the food processing and distribution business due to weakened demand in the US market and the increasing purchase and processing costs of seafood in the PRC. The management of the Company viewed that the Disposal may help the Company avoid further deterioration of the commercial value of Prowealth to be borne by the Group and may limit the potential adverse impact of the Prowealth to the Group's overall financial position.

On 19 January 2010, the Disposal was completed. It resulted in a gain on disposal of approximately US$212,000. Upon the Disposal, the resources was reallocated to timber business and other potential investments in order to further improve the Group's performance.

FUTURE PROSPECTS

The Group is principally engaged in the business of manufacturing and sale of wooden products. The current businesses of the Group do not appear promising and thus the Group has been exploring other business development and/or potential investment opportunities. During the reporting period, the Company had seized an opportunity to invest in the property market in the PRC. The continuous upward trend in the PRC real estate industry is backed by rising prices and strong demand. The upward trend in the PRC property market is also evidenced by the growth of revenue from the sale of properties in the PRC.

On 1 June 2010, Good Base Investments Limited ("Good Base"), which is a wholly-owned subsidiary of the Company, and Mr. Zhang Xi, who is currently an executive Director and the Chairman of the Company, entered into the acquisition agreement, Good Base conditionally agreed to acquire the entire issued share capital of Allywing Investments Limited ("Allywing") and its shareholder's loan at the consideration of RMB284,848,920 (equivalent to approximately US$41,693,000) ("Acquisition"). The Directors considered that the Acquisition, which provided the Group a valuable opportunity to participate in the real estate market in the PRC, would enable the Group to diversify its business to the property development sector and it was expected that this would provide positive contributions to the operation of the Group in the long run.

As at 30 June 2010, Allywing owned 60% equity interest in Xi'an Yuansheng Enterprises Limited ("Xi'an Yuansheng") which in turn held the land use and development right of a land in Xi'an ("Land"). Upon completion of the Acquisition, Allywing will become a wholly-owned subsidiary of the Company and Xi'an Yuansheng will become a non-wholly owned subsidiary of the Company. It is the current intention that the Company, through its indirect interest in Allywing upon completion of the Acquisition, will jointly develop the Land with its PRC joint venture partner through their respective equity interests in Xi'an Yuansheng.

According to the latest development proposal in relation to the Land, the Land would be developed into a residential and commercial area comprising approximately 435,595 square meters for residential use and approximately 90,403 square meters for commercial use (the "Property Project"). It is proposed that the Property Project will primarily comprise 21 blocks of 33-storey residential buildings, 2 blocks of 21-storey commercial buildings and one shopping mall.

The Group believes that this is an opportune time to venture into property market in the PRC to widen the Group's revenue streams in the future. In addition, the Group will continue to strengthen its cost control measures by further enhancing its internal operational management and production efficiency, as well as reducing consumption of raw materials and energy.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my deepest gratitude to our shareholders for their continuous supports. Many thanks also go to the Group's management and staff members for their dedication and hard work during the period and look forward to their continuous support.

By the Order of the Board
Zhang Xi
Chairman

Hong Kong, 20 August 2010

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2010, the Group's cash and bank balances of continuing operations amounted to approximately US$27,009,000 (31 December 2009: approximately US$29,183,000), representing a decrease of 7.45%. The bank and other borrowing amounted to approximately US$9,990,000 (31 December 2009: approximately US$10,364,000), representing a drop of 3.61%.

As at 30 June 2010, the current ratio (current assets/current liabilities) was 2.87 times (31 December 2009: 0.71 times) and the net current assets amounted to approximately US$34,820,000 (31 December 2009: net current liabilities amounted to approximately US$26,689,000). The improvement was primarily due to the exercise of warrants by certain warrant holders and conversion of convertible notes to ordinary shares of the Company by certain noteholders during the reporting period.

During the period under review, net cash used in operating activities was approximately US$21,326,000, which was mainly due to the increase in held-for-trading investment amounted to approximately US$14,019,000. The net cash used in investing activities was approximately US$1,365,000. The net cash from financing activities was approximately US$19,378,000, which mainly comprised the redemption of convertible notes of approximately US$16,779,000, the proceed from issue of shares upon exercise of warrants amounted to approximately US$4,106,000 and the proceeds from the issue of convertible notes of approximately US$32,231,000. As a result, the net decrease in cash and cash equivalents during the reporting period was approximately US$3,313,000.

Exercise of Warrants

During the reporting period, the registered holders of 1,229,538,456 warrants exercised their rights to subscribe for 1,229,538,456 ordinary shares in the Company at HK$0.026 per share. The aggregate fair value gain of approximately US$993,000 was recognised in respect of fair value changes immediately prior to each exercise dates. A fair value gain of approximately US$10,348,000, in respect of the outstanding warrants at 30 June 2010, was recognised in profit or loss. The outstanding warrants to subscribe for the ordinary shares in the Company was expired on 20 July 2010.

Redemption of Convertible Notes

On 10 December 2009, Sun Boom Limited ("Sun Boom") and Wise Virtue Holdings Limited ("Wise Virtue") transferred the April Convertible Note, May SPA Convertible Note, Sun Boom Convertible Note and Wise Virtue Convertible Note to a private investment institution independent of the Company.

On 14 January 2010, the conversion price of outstanding Sun Boom Convertible Note and Wise Virtue Convertible Note was adjusted from HK$0.047 to HK$0.044 per share as a result of the completion of the placing of the remaining First Tranche Fulbond Convertible Notes. A net gain of approximately US$650,000 was recognised in the profit or loss in the current period.

On 4 March 2010, the holders of Sun Boom Convertible Note and Wise Virtue Convertible Note exercised their options to require the Company to redeem the remaining of Sun Boom Convertible Note and Wise Virtue Convertible Note at the principle amount of HK$50,000,000 and HK$80,265,260, respectively. During the period up to the date of redemption, a fair value gain of approximately US$4,443,000 was recognised in the profit or loss. An aggregate gain on early redemption of these convertible notes of approximately US$4,768,000 was recognised in the profit or loss.

Conversion of Convertible Notes

During the six months ended 30 June 2010, certain holders of the First Tranche Fulbond Convertible Notes exercised their option to convert the convertible note in the aggregate principle amount of HK$200,000,000 to ordinary shares of the Company. The aggregate loss of approximately US$31,335,000 on fair value changes of Fulbond Convertible Notes being converted during the period under review was recognised in profit or loss.

Issue of Fulbond Convertible Notes

The resolution approving the placing agreement was passed at the special general meeting of the Company held on 16 October 2009. The placing of the First Tranche Convertible Notes in the aggregate principal amount of HK$450,000,000 took place in 2 tranches on 29 December 2009 and 14 January 2010. Total fair value of the remaining portion of the First Tranche Convertible Notes at 14 January 2010 was approximately US$92,626,000, representing a loss on initial recognition of US$60,395,000 recognised in profit or loss. During the six months ended 30 June 2010, an aggregate fair value gain of approximately US$19,940,000 in respect of the outstanding First Tranche Fulbond Convertible Notes was recognised in the profit or loss.

The resolution approving the placing of the Second Tranche Convertible Notes was passed at the special general meeting of the Company held on 20 July 2010. On 2 August 2010, the Listing Committee of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), upon application by the Company, granted on a conditional basis the listing of and permission to deal in the Conversion Shares (as defined in Circular dated 28 June 2010) which may fall to be issued on exercise of the conversion rights attaching to the Second Tranche Convertible Notes in an aggregate principal amount of HK$250,000,000 (the "HK$250 million CN"). The placing of the HK$250 million CN was completed on 10 August 2010.

MATERIAL DISPOSAL OF SUBSIDIARIES

The Disposal was approved by the shareholders of the Company and completed on 19 January 2010. Upon the completion of the Disposal, the Prowealth has ceased to be subsidiaries of the Company. The part of the consideration in the sum of HK$122,000,000 was received in December 2009, the remaining balance of the consideration in the sum of HK$43,000,000 shall be receivable on or before 31 December 2010.

MATERIAL ACQUISITION OF SUBSIDIARIES AND CONNECTED TRANSACTION

The Acquisition was completed on 13 August 2010. Following the completion of the Acquisition, Allywing has become a wholly-owned subsidiary of the Company and Xi'an Yuansheng has become a non-wholly owned subsidiary of the Company. Referring to the announcements dated on 13 August 2010, the payment of the consideration amounting to RMB284,848,920 was arranged as (i) an amount of RMB260,848,920 was paid in cash to Mr. Zhang Xi on 13 August 2010; (ii) the remaining balance of RMB24,000,000 shall be retained and applied to satisfy the Second Stage Capital Increase (as defined in the Circular dated 28 June 2010) after completion of the Acquisition.

CAPITAL STRUCTURE

As at 30 June 2010, the Group's gearing ratio calculated on the basis of warrants, convertible notes, bank and other borrowings of approximately US$69,984,000 (31 December 2009: approximately US$106,613,000) and total assets of approximately US$54,527,000 (31 December 2009: approximately US$80,190,000), was approximately 56.21% (31 December 2009: approximately 57.07%).

During the reporting period, registered holders of 1,229,538,456 warrants exercised their rights to subscribe for 1,229,538,456 ordinary shares in the Company at a subscription price of HK$0.026 per share; certain holders of First Tranche Fulbond Convertible Notes in an aggregate principal amount of HK$200,000,000 exercised their options to convert the First Tranche Fulbond Convertible Notes into ordinary shares in the Company at a conversion price of HK$0.01 per share. As a result of the conversion of the First Tranche Fulbond Convertible Notes, the number of the Company's issued shares was increased by 20,000,000,000 shares. As at 30 June 2010, the number of the Company's issued shares was enlarged to 35,242,927,432 shares.

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. Transactions of the Group are mainly denominated in Hong Kong dollars, RMB or US dollars. The Group has not adopted any hedging policies, as these currencies carry low exchange fluctuation risks. However, management will monitor foreign exposure closely and consider the usage of hedging instruments when the need arise.

PLEDGE OF ASSETS

At the end of the reporting period, the Group had pledged certain property, plant and equipment with aggregate carrying amounts of approximately US$442,000 (31 December 2009: approximately US$10,588,000) respectively to various banks to secure the bank loans and general credit facilities granted to the Group.

EMPLOYEES AND REMUNERATION POLICIES

As of 30 June 2010, the Group had approximately 530 full time management, administrative and production staff in the PRC and Hong Kong.

The Group provides competitive remuneration package 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 set up a 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 2010 (six months ended 30 June 2009: Nil). Accordingly, no closure of Register of Member of the Company is proposed.

Share Options

Share options to subscribe Company's shares

Pursuant to the Company's share option scheme adopted on 19 November 2001, the Directors may, at their discretion, grant options to any Directors, executives, employees and any other persons who have contributed or will contribute to the Group.

During the reporting period, there is no movement in the number of options outstanding which have been granted, exercised, cancelled or lapsed by the Company to the Directors, executives and employees of the Company under the Company's share option scheme.

Apart from the options granted to Mr. Zhang Xi and Ms. Catherine Chen as set out in the section headed "Directors' Interest in Shares and Underlying Shares" below, as at 30 June 2010, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations as recorded in the register required to be kept under 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").

Disclosure of Interest

Directors' Interest in Shares and Underlying Shares

At 30 June 2010, the interest of the Directors and their associates in the shares, underlying shares and convertible notes of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, 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	Number of underlying shares in respect of the options granted under the share option scheme (Note 1)	Approximated percentage of the issued share capital of the Company (Note 2)
Mr. Zhang Xi	Beneficial owner	1,592,826,000	91,617,000	4.78%
Ms. Catherine Chen	Beneficial owner	–	91,617,000	0.26%

Note 1: Details of the options granted by the Company are set out above.

Note 2: The percentages were calculated based on the Company's issued share capital of 35,242,927,432 shares as at 30 June 2010.

Save as above, none of the Directors nor their associates has any interest in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2010.

Substantial Shareholders' Interests

As at 30 June 2010, the register of the substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following shareholder's interests, being 5% or more of the issued share capital:

Long positions in the Shares

Name of shareholder	Capacity	Number of underlying shares interested	Approximate percentage of share capital of the Company
So Chi Ming	Beneficial owner	10,000,000,000	28.37%
Ng Leung Ho	Beneficial owner	6,000,000,000	17.02%
Chau Lai Him	Beneficial owner	4,000,000,000	11.35%
Wong Hip Keung	Beneficial owner	4,000,000,000	11.35%
Wong Lai Hop	Beneficial owner	3,450,000,000	9.79%
Ho Kam Hung	Beneficial owner	3,000,000,000	8.51%
Lee Tony Yu Tung	Beneficial owner	2,000,000,000	5.67%

Notes: The percentages were calculated based on the Company's issued share capital of 35,242,927,432 shares as at 30 June 2010.

Save as disclosed above, as at 30 June 2010, the Company has not been notified by any persons (other than Directors) who has interests in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Audit Committee

The audit committee comprises four independent non-executive Directors.

The audit committee of the Company has reviewed with management and the Company's auditor, Deloitte Touche Tohmatsu, the accounting principles and policies adopted by the Group and financial reporting matters.

The audit committee has also reviewed the unaudited interim results of the Group for the six months ended 30 June 2010.

Corporate Governance

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

As disclosed in the Corporate Governance Report contained in the Company's 2009 annual report, the Company has applied the principles under the Code on Corporate Governance Practices (the "Code"), and has been in full compliance with relevant provisions of the Code.

Model Code for Securities Transactions by Directors

During the reporting period, the Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out by the Model Code in Appendix 10 to the Listing Rules. Having made specific enquiries to all Directors, 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 review period.

Purchase, Sale or Redemption of Listed Securities of the Company

During the six months ended 30 June 2010 neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any listed securities of the Company.

Review of Interim Results

The interim results of the Group for the six months ended 30 June 2010 have been reviewed by the audit committee of the Company and the Company's auditor, Deloitte Touche Tohmatsu.

Publication of Unaudited Interim Results

The Company's 2010 interim report is published on the website of the Stock Exchange at www.hkex.com.hk and on the Company's website at www.fulbond.com.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF FULBOND HOLDINGS LIMITED
福邦控股有限公司
(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 18 to 46, which comprises the condensed consolidated statement of financial position of Fulbond Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2010 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. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information 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 Hong Kong Institute of Certified Public Accountants. A review of interim financial information 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.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
20 August 2010

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Notes	Six months ended 30 June **2010** ***US$'000*** **(Unaudited)**	2009 *US$'000* (Unaudited)
Continuing operations			
Turnover	3	**5,473**	6,323
Cost of sales		**(8,230)**	(5,397)
Gross (loss) profit		**(2,757)**	926
Other income	6	**132**	197
Other gains and losses	7	**(51,544)**	2,705
Selling and distribution costs		**(514)**	(613)
Administrative expenses		**(2,672)**	(1,976)
Finance costs		**(2,047)**	(3,093)
Loss before taxation		**(59,402)**	(1,854)
Taxation	4	**–**	–
Loss for the period from continuing operations	8	**(59,402)**	(1,854)
Discontinued operation			
Loss for the period from discontinued operation	5	**(678)**	(429)
Loss for the period		**(60,080)**	(2,283)
Other comprehensive income			
Exchange differences arising on translation to presentation currency		**576**	30
Total comprehensive income for the period		**(59,504)**	(2,253)
Loss for the period attributable to:			
Owners of the Company		**(58,837)**	(2,024)
Non-controlling interests		**(1,243)**	(259)
		(60,080)	(2,283)
Total comprehensive income attributable to:			
Owners of the Company		**(58,304)**	(1,993)
Non-controlling interests		**(1,200)**	(260)
		(59,504)	(2,253)
Loss per share	9		
From continuing and discontinued operations			
– basic		**US(0.218) cent**	US(0.016) cent
– diluted		**US(0.257) cent**	US(0.024) cent
From continuing operations			
– basic		**US(0.216) cent**	US(0.012) cent
– diluted		**US(0.255) cent**	US(0.022) cent

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	Notes	**30.6.2010** **US$'000** **(Unaudited)**	31.12.2009 US$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	**442**	857
Prepaid lease payments		**623**	636
Interests in associates		**–**	–
Other investments		**–**	–
Club debenture		**–**	–
		1,065	1,493
Current assets			
Inventories		**3,761**	5,876
Trade and other receivables	11	**7,459**	2,982
Deposits and prepayments		**2,170**	1,585
Held-for-trading investments	12	**13,063**	–
Bank balances and cash		**27,009**	29,183
		53,462	39,626
Assets classified as held for sale		**–**	39,071
		53,462	78,697
Current liabilities			
Trade and other payables	13	**7,723**	27,631
Amounts due to associates	14	**68**	76
Amounts due to directors of subsidiaries	14	**473**	473
Taxation payable		**321**	319
Obligation under finance lease		**10**	10
Warrants	15	**57**	10,430
Convertible notes	16	**–**	26,727
Bank and other borrowings – amount due within one year	17	**9,990**	10,364
		18,642	76,030
Liabilities associated with assets classified as held for sale		**–**	17,278
		18,642	93,308
Net current assets (liabilities)		**34,820**	(14,611)
Total assets less current liabilities		**35,885**	(13,118)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	Notes	30.6.2010 US$'000 (Unaudited)	31.12.2009 US$'000 (Audited)
Non-current liabilities			
Convertible notes	16	**59,937**	46,373
Obligation under finance lease		**15**	20
		59,952	46,393
		(24,067)	(59,511)
Capital and reserves			
Share capital	18	**35,243**	14,013
Reserves		**(58,591)**	(74,005)
Equity attributable to owners of the Company		**(23,348)**	(59,992)
Non-controlling interests		**(719)**	481
		(24,067)	(59,511)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Attributable to owners of the Company										
	Share capital US$'000	Share premium US$'000	Capital reserve US$'000	General reserve US$'000	Exchange translation reserve US$'000	Share option reserve US$'000	Capital redemption reserve US$'000	Accumulated losses US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
At 1 January 2010 (audited)	**14,013**	**59,338**	**551**	**1,940**	**2,094**	**524**	**4**	**(138,456)**	**(59,992)**	**481**	**(59,511)**
Exchange difference arising on translation of functional currency to presentation currency	**–**	**–**	**–**	**–**	**533**	**–**	**–**	**–**	**533**	**43**	**576**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(58,837)**	**(58,837)**	**(1,243)**	**(60,080)**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**533**	**–**	**–**	**(58,837)**	**(58,304)**	**(1,200)**	**(59,504)**
Exercise of warrants	**1,230**	**1,883**	**–**	**–**	**–**	**–**	**–**	**–**	**3,113**	**–**	**3,113**
Conversion of convertible notes	**20,000**	**71,835**	**–**	**–**	**–**	**–**	**–**	**–**	**91,835**	**–**	**91,835**
Reserves released upon disposal of subsidiaries	**–**	**–**	**–**	**(448)**	**648**	**–**	**–**	**(200)**	**–**	**–**	**–**
At 30 June 2010 (unaudited)	**35,243**	**133,056**	**551**	**1,492**	**3,275**	**524**	**4**	**(197,493)**	**(23,348)**	**(719)**	**(24,067)**
At 1 January 2009 (audited)	12,954	53,078	551	1,670	2,651	524	4	(84,309)	(12,877)	1,198	(11,679)
Exchange difference arising on translation of functional currency to presentation currency	–	–	–	–	31	–	–	–	31	(1)	30
Loss for the period	–	–	–	–	–	–	–	(2,024)	(2,024)	(259)	(2,283)
Total comprehensive income for the period	–	–	–	–	31	–	–	(2,024)	(1,993)	(260)	(2,253)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(487)	(487)
Transfer	–	–	–	246	–	–	–	(246)	–	–	–
At 30 June 2009 (unaudited)	12,954	53,078	551	1,916	2,682	524	4	(86,579)	(14,870)	451	(14,419)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Note	Six months ended 30 June 2010 US$'000 (Unaudited)	2009 US$'000 (Unaudited)
Operating activities			
Loss before taxation from continuing and discontinued operations		**(60,080)**	(2,283)
Adjustments for:			
Release of prepaid lease payments		**13**	26
Amortisation of intangible assets		**–**	265
Allowance for slow moving inventories		**3,644**	–
Net losses (gains) on fair value change of derivative financial instruments and warrants		**55,356**	(2,705)
Change in fair value of held-for-trading investments		**956**	–
Depreciation of property, plant and equipment		**803**	1,639
Interest income		**(58)**	(54)
Finance costs		**2,047**	3,093
Gain on disposal of subsidiaries		**(212)**	–
Gain on early redemption of convertible notes		**(4,768)**	–
Operating cash flows before movements in working capital		**(2,299)**	(19)
(Increase) decrease in inventories		**(974)**	925
(Increase) decrease in trade and other receivables		**(5,656)**	7,649
Decrease (increase) in deposits and prepayments		**5,581**	(2,506)
Increase in held-for-trading investments		**(14,019)**	–
(Decrease) increase in trade and other payables		**(3,959)**	336
Cash (used in) generated from operations		**(21,326)**	6,385
PRC Enterprise Income Tax paid		**–**	(380)
Net cash (used in) generated from operating activities		**(21,326)**	6,005
Investing activities			
Interest received		**58**	54
Purchases of property, plant and equipment		**(360)**	(1,198)
Disposal of subsidiaries	5	**(1,063)**	–
Other investing activities		**–**	219
Net cash used in investing activities		**(1,365)**	(925)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Financing activities		
Interest paid	**(216)**	(2,036)
Repayment of bank loans	**–**	(2,926)
Redemption of convertible notes	**(16,779)**	–
Proceed from issue of convertible notes	**32,231**	–
Proceed from issue of shares upon exercise of warrants	**4,106**	–
Other financing activities	**36**	996
Net cash from (used in) financing activities	**19,378**	(3,966)
Net (decrease) increase in cash and cash equivalents	**(3,313)**	1,114
Cash and cash equivalents at 1 January	**30,633**	8,882
Effect of changes in foreign exchange rates	**(311)**	37
Cash and cash equivalents at 30 June, represented by bank balances and cash	**27,009**	10,033

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

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 (the "Stock Exchange") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

In preparing the condensed consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group in light of the fact that the Group incurred a loss of US$60,080,000 during the six months ended 30 June 2010 and as of that date, the Group had net liabilities of US$24,067,000. The Group has obtained undertaking from a shareholder and Chairman of the Company, Mr. Zhang Xi ("Mr. Zhang"), that Mr. Zhang will provide the Group with financial support in meeting the Group's financial obligations as they fall due in the foreseeable future. In addition, the Group has completed the issuance of the first portion of the Second Tranche Fulbond Convertible Notes (see notes 16 and 22), the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future. 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 financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except as described below.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

The Group has applied the following new accounting policies during the current interim period:

Financial assets at fair value through profit or loss ("FVTPL")

The Group's financial assets at FVTPL represent financial assets held for trading. A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

In the current interim period, the Group has applied, for the first time, the following revised standards, amendments and interpretation ("new and revised HKFRSs") issued by the HKICPA.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and separate financial statements
HKAS 39 (Amendment)	Eligible hedged items
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions
HKFRS 3 (Revised)	Business combinations
HK(IFRIC)* – INT 17	Distributions of non-cash assets to owners

* IFRIC represents the International Financial Reporting Interpretations Committee.

The Group applies HKFRS 3 (Revised) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interest in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

As there was no transaction during the current interim period in which HKFRS 3 (Revised) is applicable, the application of HKFRS 3 (Revised) and the consequential amendments to other HKFRSs had no impact on the condensed consolidated financial statements of the Group for the current or prior accounting periods. During the current interim period, the Group had disposed of its entire interest in subsidiaries which HKAS 27 (Revised) is applicable, however, the application of HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no impact on the disposal and on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no impact on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new and revised standards, amendments or interpretation that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related party disclosures[4]
HKAS 32 (Amendment)	Classification of rights issues[2]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[3]
HKFRS 9	Financial instruments[5]
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a minimum funding requirement[4]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 February 2010.
3 Effective for annual periods beginning on or after 1 July 2010.
4 Effective for annual periods beginning on or after 1 January 2011.
5 Effective for annual periods beginning on or after 1 January 2013.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

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

3. SEGMENT INFORMATION

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

For the six months ended 30 June 2010

	Continuing operations	Discontinued operation	
	Timber	**Food processing and distribution**	**Consolidated**
	US$'000	***US$'000***	***US$'000***
TURNOVER			
External sales	**5,473**	**2,281**	**7,754**
SEGMENT RESULT	**(3,777)**	**(101)**	**(3,878)**
Unallocated income	**58**	**–**	**58**
Unallocated expenses	**(2,092)**	**(754)**	**(2,846)**
Other gains and losses	**(51,544)**	**212**	**(51,332)**
Finance costs	**(2,047)**	**(35)**	**(2,082)**
Loss before taxation	**(59,402)**	**(678)**	**(60,080)**
Taxation	**–**	**–**	**–**
Loss for the period	**(59,402)**	**(678)**	**(60,080)**

3. SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2009

	Continuing operations	Discontinued operation	
	Timber	Food processing and distribution	Consolidated
	US$'000	*US$'000*	*US$'000*
TURNOVER			
External sales	6,323	16,688	23,011
SEGMENT RESULT	(642)	228	(414)
Unallocated income	51	118	169
Unallocated expenses	(875)	(49)	(924)
Other gains and losses	2,705	–	2,705
Finance costs	(3,093)	(691)	(3,784)
Loss before taxation	(1,854)	(394)	(2,248)
Taxation	–	(35)	(35)
Loss for the period	(1,854)	(429)	(2,283)

Segment result represents loss or profit from each segment without allocation of interest income, central administrative costs, directors' emoluments, other gains and losses and finance costs. This is the measure regularly reported to the Chairman of the Company for the purpose of resource allocation and performance assessment.

4. 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 People's Republic of China (the "PRC") Enterprise Income Tax has been made as those subsidiaries established in the PRC have no assessable profits for both periods presented.

5. DISCONTINUED OPERATION

On 4 December 2009, the Group entered into an agreement with Sincerity Shine Holdings Limited ("Sincerity Shine"), being a party connected to the Group, to dispose all of its entire interests in Prowealth Holdings Group Limited ("Prowealth") and its subsidiaries (the "Disposal Group"), which carried out all of the Group's food processing and distribution operation (the "Disposal"). Sincerity Shine is beneficially owned as to 50% by Ms. Huang Yu Wei, being the spouse of Mr. Li Geng ("Mr. Li"). Mr. Li was a substantial shareholder of the Company before Mr. Li disposed of his entire interest in the Company on 4 December 2009. Mr. Li is also a director of Prowealth and has beneficial interest in Wise Virtue Holdings Limited ("Wise Virtue"). Wise Virtue was one of the vendors of Prowealth when Prowealth was acquired by the Group in October 2008. The Disposal was subsequently approved by the shareholders of the Company on 18 January 2010 and completed on 19 January 2010.

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

	1.1.2010 to 19.1.2010	Six months ended 30.6.2009
	US$'000	*US$'000*
Loss of food processing and distribution operation for the period	**(890)**	(429)
Gain on disposal of food processing and distribution operation	**212**	–
	(678)	(429)

The results of the food processing and distribution operation for the period from 1 January 2010 to 19 January 2010 which have been included in the condensed consolidated statement of comprehensive income were as follows:

	1.1.2010 to 19.1.2010	Six months ended 30.6.2009
	US$'000	*US$'000*
Turnover	**2,281**	16,688
Cost of sales	**(2,201)**	(14,796)
Other income	**88**	374
Distribution and selling costs	**(18)**	(490)
Administrative expenses	**(1,005)**	(1,479)
Finance costs	**(35)**	(691)
Loss before taxation	**(890)**	(394)
Taxation	**–**	(35)
Loss for the period	**(890)**	(429)

5. DISCONTINUED OPERATION (Continued)

The major classes of assets and liabilities of the Disposal Group at the date of disposal were as follows:

	US$'000
Property, plant and equipment	9,621
Prepaid lease payments	2,424
Inventories	8,981
Trade and other receivables	16,303
Tax recoverable	222
Bank balances and cash	1,063
Trade and other payables	(3,989)
Other creditors and accrued charges	(358)
Amounts due to directors	(365)
Bank loans	(12,746)
Others	(107)
	21,049
Gain on disposal	212
Total consideration	21,261
Satisfied by:	
Deposits received in 2009 (note 13)	15,742
Balance of consideration receivable (note 11)	5,519
	21,261
Net cash outflow arising on disposal:	
Cash and cash equivalents disposed of	(1,063)

The balance of consideration receivable will be settled in cash by the purchaser on or before 31 December 2010.

Certain comparative figures of the condensed consolidated statement of comprehensive income were restated so as to reflect the results for the discontinued operation.

6. OTHER INCOME

	Six months ended 30 June	
	2010	2009
	US$'000	*US$'000*
Continuing operations		
Value added tax refund	**–**	97
Interest income	**58**	51
Sales of scrap materials	**68**	–
Others	**6**	49
	132	197

7. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2010	2009
	US$'000	*US$'000*
Continuing operations		
Change in fair value of held-for-trading investments	**(956)**	–
Net (losses) gains on fair value change of derivative financial instruments and warrants	**(55,356)**	2,705
Gain on early redemption of convertible notes	**4,768**	–
	(51,544)	2,705

8. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2010	2009
	US$'000	*US$'000*
Continuing operations		
Loss for the period has been arrived at after charging:		
Allowance for slow-moving inventories (included in cost of sales) (Note)	**3,644**	–
Release of prepaid lease payments	**13**	–
Depreciation of property, plant and equipment	**403**	1,052
Interest expense on convertible notes	**1,910**	2,949

Note: At 30 June 2010, the directors conducted a review of the Group's inventories and considered certain inventories are slow moving, as a result, an allowance of US$3,644,000 (six months ended 30 June 2009: nil) was charged to the condensed consolidated statement of comprehensive income.

9. LOSS PER SHARE

For continuing and discontinued operations

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

	Six months ended 30 June	
	2010	2009
	US$'000	*US$'000*
Loss:		
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	**(58,837)**	(2,024)
Effect of dilutive potential ordinary shares:		
– Interest on convertible notes	**176**	1,201
– Change in fair value of embedded conversion option and early redemption option	**(5,092)**	(2,797)
– Change in fair value of warrants	**(11,341)**	–
– Exchange realignment of convertible notes	**(50)**	(1)
Loss for the purpose of diluted loss per share	**(75,144)**	(3,621)

9. LOSS PER SHARE (Continued)

For continuing and discontinued operations (Continued)

	Six months ended 30 June **2010**	2009
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic loss per share	**26,929,096,154**	12,954,619,755
Effect of dilutive potential ordinary shares in respect of convertible notes	**1,030,474,008**	1,871,066,977
Effect of dilutive potential ordinary shares in respect of warrants	**1,282,822,572**	–
Weighted average number of ordinary shares for the purpose of diluted loss per share	**29,242,392,734**	14,825,686,732

From continuing operations

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

	Six months ended 30 June **2010** ***US$'000***	2009 *US$'000*
Loss for the period attributable to owners of the Company	**(58,837)**	(2,024)
Less: Loss for the period from discontinued operation	**(678)**	(429)
Loss for the purpose of basic loss per share from continuing operations	**(58,159)**	(1,595)
Effect of dilutive potential ordinary shares:		
– Interest on convertible loan notes	**176**	1,201
– Change in fair value of embedded conversion option and early redemption option	**(5,092)**	(2,797)
– Change in fair value of warrants	**(11,341)**	–
– Exchange realignment of convertible notes	**(50)**	(1)
Loss for the purpose of diluted loss per share from continuing operations	**(74,466)**	(3,192)

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

9. LOSS PER SHARE (Continued)

From discontinued operation

Basic loss per share for discontinued operation is US0.003 cent per share (2009: US0.003 cent per share), based on the loss for the period from discontinued operation of US$678,000 (2009: US$429,000) and the denominator as detailed above for basic loss per share from continuing and discontinued operations. No diluted loss per share for discontinued operation has been presented for both periods as the assumed conversion of certain convertible notes and exercise of warrants would result in a decrease in the loss per share.

The computation of diluted loss per share for the six months ended 30 June 2010 and 30 June 2009 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 both periods. It does not assume the conversion of certain convertible notes for the six months ended 30 June 2010 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 warrants and conversion of certain convertible notes for the six months ended 30 June 2009 since their assumed exercise and conversion would result in a decrease in the loss per share.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2010, the Group spent approximately US$360,000 (six months ended 30 June 2009: US$1,198,000) on acquisitions of property, plant and equipment.

11. TRADE AND OTHER RECEIVABLES

Payment terms with customers are largely on credit. Invoices are normally payable within 30 to 90 days after issuance.

The following is an analysis of trade and other receivables, net of allowances for doubtful debts, at the end of the reporting period:

	30.6.2010 ***US$'000***	31.12.2009 *US$'000*
Trade receivables, aged		
0 – 90 days	**1,041**	1,088
91 – 180 days	**–**	71
	1,041	1,159
Other receivables	**899**	1,823
Consideration receivable for disposal of subsidiaries	**5,519**	–
	7,459	2,982

12. HELD-FOR-TRADING INVESTMENTS

	30.6.2010	31.12.2009
	US$'000	*US$'000*
Held-for-trading investments include:		
Equity securities listed in Hong Kong	**10,026**	–
Equity securities listed in United States	**3,037**	–
	13,063	–

13. TRADE AND OTHER PAYABLES

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

	30.6.2010	31.12.2009
	US$'000	*US$'000*
Trade payables, aged		
0 – 90 days	**2,006**	1,527
91 – 180 days	**–**	–
More than 180 days	**761**	1,422
	2,767	2,949
Amounts payable to minority shareholders of subsidiaries	**904**	896
Deposit received from proposed disposal of Prowealth	**–**	15,742
Other payables	**4,052**	8,044
	7,723	27,631

14. AMOUNTS DUE TO ASSOCIATES AND DIRECTORS OF SUBSIDIARIES

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

15. WARRANTS

On 28 January 2008, the Company issued 1,500,000,000 unlisted warrants at price of HK$0.001 per warrant to six placees, all being independent third parties to the Group and each warrant entitles its holder to subscribe for one ordinary share of US$0.001 each of the Company ("Subscription Share") at the initial subscription price of HK$0.074 per Subscription Share at any time during the period of 30 months commencing from the date of issue of the warrants.

On 6 August 2009, the subscription price under the terms of the warrants was adjusted downwards from HK$0.074 to HK$0.026 with effect from 6 August 2009 as a result of the placing of the Fulbond Convertible Notes (see note 16) and the total number of warrants was adjusted to 4,269,230,769. Subsequent to the price adjustments, registered holders of 1,058,769,221 warrants exercised their rights to subscribe for 1,058,769,221 ordinary shares in the Company at HK$0.026 per share. At 31 December 2009, the Company had outstanding 3,210,461,548 warrants and their aggregate fair value is approximately US$10,430,000.

During the six months ended 30 June 2010, registered holders of 1,229,538,456 warrants exercised their rights to subscribed for 1,229,538,456 ordinary shares in the Company at HK$0.026 per share. The aggregate fair value gain, representing the fair value changes of the warrants immediately prior to each respective exercise dates, is approximately US$993,000 and has been recognised in profit or loss in the current period.

At 30 June 2010, the Company had outstanding 1,980,923,092 warrants to be exercised at any time on or before 28 July 2010, exercise in full of such warrants would result in the issue of approximately 1,980,923,092 additional ordinary shares of US$0.001 each.

At 30 June 2010 and 31 December 2009, the fair value of the outstanding warrants was determined using the Black-Scholes Option Pricing Model and the inputs into the model were as follows:

	30.6.2010	31.12.2009
Exercise price	**HK$0.026**	HK$0.026
Share price	**HK$0.018**	HK$0.044
Expected volatility	**113.73%**	90.36%
Remaining life	**20 days**	7 months
Risk free rate	**0.58%**	0.167%

During the six months ended 30 June 2010, a fair value gain of approximately US$10,348,000, in respect of the outstanding warrants at 30 June 2010, has been recognised in profit or loss (six months ended 30 June 2009: fair value loss of US$70,000).

16. CONVERTIBLE NOTES

(i) Pursuant to a sales and purchase agreement on 17 October 2008 (the "Agreement") between the Company, Sun Boom Limited ("Sun Boom") and Wise Virtue to purchase 80% of the issued share capital of Prowealth at a consideration of HK$484,000,000 (equivalent to US$62,347,000) satisfied by the issue of 3,756,840,000 ordinary shares of the Company at HK$0.086 per share ("Consideration shares"), issue of HK$80,646,500 (equivalent to US$10,389,000) convertible note to Sun Boom ("Sun Boom Convertible Note") and HK$80,265,260 (equivalent to US$10,339,000) convertible note to Wise Virtue ("Wise Virtue Convertible Note").

Sun Boom Convertible Note

On 17 October 2008, the Company issued the Sun Boom Convertible Note with the principal amount of HK$80,646,500 (equivalent to US$10,389,000) which bears coupon interest at 6% per annum payable semi-annually. The Sun Boom Convertible Note is denominated in Hong Kong dollars with a conversion period of 60 months from the issue date and can be converted into ordinary shares of the Company at HK$0.086 per share, subject to the usual anti-dilution adjustments and certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivative issues. The Sun Boom Convertible Note matures on 16 October 2013 and the holder has the right to require the issuer to redeem the note at par any time before the maturity date.

The Sun Boom Convertible Note contains three components, the liability component, conversion option derivative and early redemption option. The effective interest rate of the liability component is 21.4%. The conversion option derivative and early redemption option are measured at fair value with changes in fair value recognised in profit or loss. As the holder of the convertible note has the right to require the issuer to redeem the note at par any time before maturity, it is classified as a current liability as of 31 December 2009.

The fair value of the liability component upon the issuance of the note was calculated at the present value of the coupon interest payments and the principal amount. The discount rate used in the calculation was 21.4% represents the cost of debt applicable to the Company at the issue date. The embedded conversion option represents the fair value of the noteholder's option to convert the Sun Boom Convertible Note into ordinary shares of the Company, but the conversion 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.

16. CONVERTIBLE NOTES (Continued)

(i) (Continued)

Sun Boom Convertible Note (Continued)

On 10 December 2009, Sun Boom transferred the Sun Boom Convertible Note to a private investment institution independent of the Group. On 29 December 2009, the conversion price of the Sun Boom Convertible Note was adjusted to HK$0.047 per share. Subsequent to the adjustment, on 30 December 2009, the holder of the Sun Boom Convertible Note has exercised the option to require the Company to redeem part of the Sun Boom Convertible Note at the principal amount of HK$30,646,500 (equivalent to US$3,954,000).

On 14 January 2010, the conversion price of the Sun Boom Convertible Note was further adjusted to HK$0.044 per share as a result of the partial conversion of the Fulbond Convertible Notes (see note 16(ii)). As a result of the change in term of the note, a gain of US$250,000 was recognised in the profit or loss in the current period.

On 4 March 2010, the holder of the Sun Boom Convertible Note has exercised the option to require the Company to redeem the remaining portion of the Sun Boom Convertible Note at the principal amount of HK$50,000,000 (equivalent to US$6,440,000).

The fair values of the embedded conversion option and early redemption option were determined using Black-Scholes Option Pricing Model and binomial option pricing model, respectively, and the inputs into the model at each respective date were as follows:

	(Date of redemption) 4.3.2010	31.12.2009
Conversion price	**HK$0.044**	HK$0.047
Share price	**HK$0.033**	HK$0.049
Expected volatility	**98.55%**	98.47%
Remaining life	**–**	3.8 years
Risk-free rate	**1.167%**	1.459%

During the period up to the date of redemption, a fair value gain of US$1,705,000 was recognised in the profit or loss. The carrying value of the liability component and fair value of the conversion option derivative and early redemption option of the remaining portion of the Sun Boom Convertible Note in aggregate at the date of redemption is approximately US$8,245,000, giving rise to a gain on early redemption of US$1,805,000 recognised in profit or loss in the current period.

16. CONVERTIBLE NOTES (Continued)

(i) (Continued)

Wise Virtue Convertible Note

On 17 October 2008, the Company issued the Wise Virtue Convertible Note with the principal amount of HK$80,265,260 (equivalent to US$10,339,000) which bears coupon interest at 6% per annum payable semi-annually. The Wise Virtue Convertible Note is denominated in Hong Kong dollars with a conversion period of 60 months from the issue date and can be converted into ordinary shares of the Company at HK$0.086 per share, subject to the usual anti-dilution adjustments and certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivative issues. The Wise Virtue Convertible Note matures on 16 October 2013 and the holder has the right to require the issuer to redeem the note at par any time before the maturity date.

The Wise Virtue Convertible Note contains three components, the liability component, conversion option derivative and early redemption option. The effective interest rate of the liability component is 21.4%. The conversion option derivative and early redemption option are measured at fair value with changes in fair value recognised in profit or loss. As the holder of the convertible note has the right to require the issuer to redeem the note at par any time before maturity, it is classified as a current liability as of 31 December 2009.

The fair value of the liability component upon the issuance of the note was calculated at the present value of the coupon interest payments and the principal amount. The discount rate used in the calculation was 21.4% represents the cost of debt applicable to the Company at the issue date. The embedded conversion option represents the holders' option to convert the Wise Virtue Convertible Note into ordinary shares of the Company, but the conversion 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.

On 10 December 2009, Wise Virtue transferred the Wise Virtue Convertible Note to a private investment institution independent of the Group. On 29 December 2009, the conversion price of the Wise Virtue Convertible Note was adjusted to HK$0.047 per share.

16. CONVERTIBLE NOTES (Continued)

(i) (Continued)

Wise Virtue Convertible Note (Continued)

On 14 January 2010, the conversion price of the Wise Virtue Convertible Note was further adjusted to HK$0.044 per share as a result of the partial conversion of the Fulbond Convertible Notes (see note 16(ii)). As a result of the change in term of the note, a gain of US$400,000 was recognised in the profit or loss in the current period.

On 4 March 2010, the holder of the Wise Virtue Convertible Note has exercised the option to require the Company to redeem the Wise Virtue Convertible Note in full at the principal amount of HK$80,265,260 (equivalent to US$10,339,000).

The fair values of the embedded conversion option and early redemption option were determined using Black-Scholes Option Pricing Model and binomial option pricing model, respectively, and the inputs into the model at each respective date were as follows:

	(Date of redemption) 4.3.2010	31.12.2009
Conversion price	**HK$0.044**	HK$0.047
Share price	**HK$0.033**	HK$0.049
Expected volatility	**98.55%**	98.47%
Remaining life	**–**	3.8 years
Risk-free rate	**1.167%**	1.459%

During the period up to the date of redemption, a fair value gain of US$2,738,000 was recognised in the profit or loss. The carrying value of the liability component and fair value of the conversion option derivative and early redemption option of the Wise Virtue Convertible Note in aggregate at the date of redemption is approximately US$13,302,000, giving rise to a gain on early redemption of US$2,963,000 recognised in profit or loss in the current period.

16. CONVERTIBLE NOTES (Continued)

(ii) *Fulbond Convertible Note*

On 6 August 2009, the Company announced that a placing agreement (the "Placing Agreement") was entered between the Company and a placing agent (the "Placing Agent"), whereby the Placing Agent has conditionally agreed to place, on a best efforts basis, zero coupon convertible notes in a maximum aggregate principal amount of HK$800,000,000 (equivalent to approximately US$103,226,000) (the "Fulbond Convertible Notes") which are convertible into ordinary shares of the Company at a conversion price of HK$0.01 per share. Pursuant to the Placing Agreement, the Company and the Placing Agent agreed that the placing can be completed partially by a maximum of 8 tranches provided that the aggregate principal amount of the convertible notes to be issued by the Company for each partial completion shall not be less than HK$100,000,000 and in multiple of HK$5,000,000.

On 28 September 2009, the Company issued a circular in connection with the placing, whose proceeds will provide additional funding to the Group and redemption of existing convertible notes issued by the Company. 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 subject to and upon the terms and conditions under the Placing Agreement. On 22 December 2009, the Stock Exchange has, upon application by the Company, granted, on a conditional basis, the listing of and permission to deal in a maximum of 20,000,000,000 conversion shares in an aggregate sum of HK$200,000,000 at the initial conversion price of HK$0.01 per share. On 29 December 2009, the Company has partially issued the First Tranche Fulbond Convertible Notes with the principal amount of HK$200,000,000 (equivalent to US$25,806,000) to an independent third party of the Group.

16. CONVERTIBLE NOTES (Continued)

(ii) Fulbond Convertible Note (Continued)

The First Tranche Fulbond Convertible Notes are denominated in Hong Kong dollars with a conversion period of 36 months from the 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 First Tranche Fulbond Convertible Notes will mature on 28 December 2012 and can be redeemed at par at discretion of the issuer in whole or in part anytime before the maturity date.

The First Tranche Fulbond Convertible Notes contain three components, the liability component, conversion option derivative and issuer's early redemption option. The effective interest rate of the liability component is 15.24%. The conversion option derivative and issuer's 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 discount rate used in the calculation is 15.24% represents the cost of debt applicable to the Company at the issue date. The embedded conversion option represents the fair value of the noteholders' option to convert the First Tranche Fulbond Convertible Notes into ordinary shares of the Company, but the conversion 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.

16. CONVERTIBLE NOTES (Continued)

(ii) Fulbond Convertible Note (Continued)

On 14 January 2010, the Company has issued the remaining portion of the First Tranche Fulbond Convertible Notes with principal amount of HK$250,000,000 (equivalent to US$32,231,000) to an independent third party of the Group. The terms of this remaining portion of the First Tranche Fulbond Convertible Notes are same as the previous issue on 29 December 2009. The effective interest rate of the liability component is 12.66%. The fair value of the liability component upon the issuance of the note was calculated at the present value of the principal amount and the discount rate used in the calculation is 12.66% represents the cost of debt applicable to the Company at the issue date. The total fair value of the note at 14 January 2010 is approximately US$92,626,000, representing a loss on initial recognition of US$60,395,000 recognised in profit or loss.

On 12 January 2010, certain holders of the First Tranche Fulbond Convertible Notes, which were issued on 29 December 2009, have given notice to the Company to convert certain portion of the First Tranche Convertible Notes in aggregate principal amount of HK$100,000,000 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 US$64,104,000, giving rise to a loss on fair value changes of US$40,816,000 recognised in profit or loss. On 5 May 2010 and 18 May 2010, certain holders of the First Tranche Fulbond Convertible Notes, which were issued on 14 January 2010, have given notice to the Company to convert certain portion of the First Tranche Convertible Notes in aggregate principal amount of HK$100,000,000 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 US$27,731,000, giving rise to a gain on fair value changes of US$9,481,000 recognised in profit or loss.

16. CONVERTIBLE NOTES (Continued)

(ii) *Fulbond Convertible Note (Continued)*

The fair values of the embedded conversion option and the issuer's early redemption option were determined using Black-Scholes Option Pricing Model and Black-Scholes Barrier Model, respectively, and the inputs into the model at each respective date were as follows:

	30.6.2010	(Date of conversion) 18.5.2010	(Date of conversion) 5.5.2010	14.1.2010	(Date of conversion) 12.1.2010	31.12.2009
Conversion price	**HK$0.01**	HK$0.01	HK$0.01	HK$0.01	HK$0.01	HK$0.01
Share price, after adjusting for dilution	**HK$0.018**	HK$0.02	HK$0.024	HK$0.028	HK$0.050	HK$0.019
Expected volatility	**63.99%**	66.1%	65.87%	69.03%	68.8%	62.01%
Remaining life	**2.5 years**	–	–	2.96 years	–	2.99 years
Risk-free rate	**0.913%**	0.81%	0.984%	0.995%	1.004%	1.117%

The aggregate principal amount under the First Tranche Fulbond Convertible Notes outstanding at 30 June 2010 amounts to HK$250,000,000 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 US$59,937,000. During the six months ended 30 June 2010, an aggregate fair value gain of US$19,940,000 in respect of the outstanding Fulbond Convertible Notes was recognised in the profit or loss.

The movements of the components of the Sun Boom Convertible Note, Wise Virtue Convertible Note and First Tranche Fulbond Convertible Notes during the period is set out below:

	Liability component *US$'000*	**Embedded conversion option** *US$'000*	**Early redemption option** *US$'000*	**Total** *US$'000*
At 1 January 2010	**27,509**	**42,554**	**3,037**	**73,100**
Issued during the period	**22,557**	**70,855**	**(786)**	**92,626**
Adjustment	**–**	**232**	**(882)**	**(650)**
Change in fair value	**–**	**6,400**	**552**	**6,952**
Interest charged (net of interest paid)	**1,694**	**–**	**–**	**1,694**
Redeemed during the period	**(10,560)**	**(7,649)**	**(3,338)**	**(21,547)**
Converted during the period	**(17,766)**	**(75,278)**	**1,209**	**(91,835)**
Exchange realignment	**(157)**	**(241)**	**(5)**	**(403)**
At 30 June 2010	**23,277**	**36,873**	**(213)**	**59,937**

17. BANK AND OTHER BORROWINGS

No bank loans were repaid during the six months ended 30 June 2010 (six months ended 30 June 2009: US$2,926,000) and no new bank loans were obtained during both periods. All borrowings bear interest at prevailing market rates and are repayable within five years.

18. SHARE CAPITAL

	Number of shares	**Amount**
		US$'000
Ordinary shares of US$0.001 each		
Authorised:		
At 1 January 2009, 31 December 2009 and 30 June 2010	100,000,000,000	100,000
Issued and fully paid:		
At 1 January 2009 and 30 June 2009	12,954,619,755	12,954
Exercise of warrant subscription rights	1,058,769,221	1,059
At 31 December 2009	14,013,388,976	14,013
Exercise of warrant subscription rights	1,229,538,456	1,230
Issue of shares upon conversion of convertible notes	20,000,000,000	20,000
At 30 June 2010	**35,242,927,432**	**35,243**

19. 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:

	30.6.2010	31.12.2009
	US$'000	*US$'000*
Within one year	**162**	47
In the second to fifth year inclusive	**9**	–
	171	47

20. PLEDGE OF ASSETS

At 30 June 2010, the Group had pledged certain property, plant and equipment with an aggregate carrying amount of US$442,000 (31 December 2009: US$10,588,000) to various banks to secure the bank loans and general banking facilities granted to the Group.

21. RELATED PARTY TRANSACTIONS

The key management personnel of the Group are the directors of the Company. The six months ended 30 June 2010, directors emolument of approximately US$117,000 (six months ended 30 June 2009: US$156,000) were paid to the directors of the Company.

22. EVENT AFTER THE REPORTING PERIOD

(i) On 28 June 2010, the Company issued a circular (the "Circular") in connection with the proposed acquisition of the entire issued share capital of and the assignment of the shareholder's loan of Allywing Investments Limited ("Allywing") and the placing of the Second Tranche Fulbond Convertible Notes. The ordinary resolutions as set out in the notice of special general meeting in relation to the proposed acquisition and the placing of the Second Tranche Fulbond Convertible Notes and the respective transactions contemplated thereunder were duly passed by the independent shareholders on 20 July 2010. The total consideration for the acquisition of entire issued share capital and shareholder's loan of Allywing is RMB284,849,000 (equivalent to US$41,693,000). On 13 August 2010, the Company and the vendor have entered into a supplemental agreement (the "Supplemental Agreement") to amend certain terms of the acquisition agreement and the details are set out in the Company's announcement dated 13 August 2010. Pursuant to the Supplemental Agreement, the payment arrangement of the consideration of the acquisition as set out in the Circular is modified to RMB260,849,000 and shall be paid in cash to the vendor, whereas the remaining balance of RMB24,000,000 shall be retained by the Group and applied to satisfy the Second Stage Capital Increase (as defined in the Circular). The acquisition was completed on 13 August 2010. At the date of acquisition, Allywing has no significant liabilities and the principal asset being held is a piece of land located in Xian in the PRC with carrying value of approximately US$11,561,000.

(ii) On 2 August 2010, the Stock Exchange has, upon application by the Company, granted, on a conditional basis, the listing of and permission to deal in a maximum of 25,000,000,000 conversion shares in an aggregate sum of HK$250,000,000. On 10 August 2010, the Company has issued the first portion of the Second Tranche Fulbond Convertible Notes in an aggregate principal amount of HK$250,000,000. The management intends to use the proceed from the issuance to satisfy part of the consideration for the proposed acquisition as mentioned in note 22(i) above.