



# SOUTH CHINA HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 265)

## INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2007

### UNAUDITED CONSOLIDATED INTERIM RESULTS

The board of directors (the “Board”) of South China Holdings Limited (the “Company”) announces that the unaudited results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007 are as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June	
		2007 Unaudited HK\$'000	2006 Unaudited HK\$'000
<b>Turnover</b>	2	<b>2,197,665</b>	1,773,514
Cost of sales		<b>(1,916,142)</b>	(1,625,261)
Gross profit		<b>281,523</b>	148,253
Other operating income		<b>10,887</b>	13,547
Selling and distribution costs		<b>(39,480)</b>	(43,955)
Administrative expenses		<b>(249,019)</b>	(202,831)
Reversal of impairment of trade and loans receivable		<b>1,385</b>	–
Fair value gain/(loss) on financial assets at fair value through profit or loss		<b>13,629</b>	(6,543)
Fair value gains on investment properties		<b>20,000</b>	–
Gain on disposal of available-for-sale financial assets		<b>82,326</b>	1,618
Gain on disposal of investment properties		–	5,100
Excess over the cost of business combinations		<b>3,779</b>	228,206
Gain on disposal of subsidiaries	3	<b>355,615</b>	–
Gain on dilution of subsidiary		–	3,633
<b>Profit from operations</b>	2&4	<b>480,645</b>	147,028
Finance costs		<b>(19,144)</b>	(13,048)
Share of profits and losses of associates		<b>170,292</b>	(2,769)
Profit before tax		<b>631,793</b>	131,211
Tax	5	<b>(8,510)</b>	(3,874)
<b>Profit for the period</b>		<b>623,283</b>	127,337
Attributable to:			
Equity holders of the Company		<b>466,603</b>	96,786
Minority interests		<b>156,680</b>	30,551
		<b>623,283</b>	127,337
<b>Dividend</b>			
Interim	6	<b>25,528</b>	–
<b>Basic earnings per share attributable to equity holders of the Company</b>	7	<b>HK25.59 cent</b>	HK5.31 cent

## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>30 June</b>	31 December
		<b>2007</b>	2006
		<b>Unaudited</b>	Audited
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Non-current assets</b>			
Property, plant and equipment		<b>322,887</b>	364,321
Investment properties		<b>1,004,574</b>	950,618
Prepaid land lease payments		<b>24,094</b>	30,955
Construction in progress	8	<b>24,335</b>	208,737
Convertible note	8	<b>408,000</b>	–
Interests in associates	9	<b>537,927</b>	310,762
Goodwill and intangible assets		<b>8,708</b>	22,281
Biological assets		<b>65,000</b>	65,000
Deferred tax assets		<b>6,610</b>	9,776
Loans receivable	10	<b>7,657</b>	5,979
Available-for-sale financial assets		<b>20,941</b>	60,202
Other non-current assets		<b>47,091</b>	47,458
		<hr/>	<hr/>
Total non-current assets		<b>2,477,824</b>	2,076,089
<b>Current assets</b>			
Inventories		<b>384,778</b>	361,283
Loans receivable	10	<b>1,212,869</b>	207,726
Trade and other receivables	11	<b>836,387</b>	521,019
Financial assets at fair value through profit or loss		<b>148,074</b>	132,496
Due from related companies		<b>1,058</b>	306
Advance to minority shareholders of subsidiaries		<b>1,440</b>	14,403
Tax recoverable		<b>8,280</b>	12,960
Pledged bank deposits		<b>18,330</b>	17,630
Cash held on behalf of clients		<b>489,853</b>	363,372
Cash and cash equivalent		<b>387,388</b>	365,891
		<hr/>	<hr/>
		<b>3,488,457</b>	1,997,086
Non-current assets classified as held for sale		<b>96,924</b>	53,300
		<hr/>	<hr/>
<b>Total current assets</b>		<b>3,585,381</b>	2,050,386
<b>Current liabilities</b>			
Client deposits		<b>506,615</b>	359,586
Trade and other payables	12	<b>1,157,648</b>	980,840
Interest-bearing bank and other borrowings	13	<b>1,624,705</b>	578,798
Due to related companies		<b>228</b>	62
Tax payable		<b>29,944</b>	35,785
		<hr/>	<hr/>
<b>Total current liabilities</b>		<b>3,319,140</b>	1,955,071
		<hr/>	<hr/>
<b>Net current assets</b>		<b>266,241</b>	95,315
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		<b>2,744,065</b>	2,171,404
		<hr/>	<hr/>

	<b>30 June 2007 Unaudited HK\$'000</b>	31 December 2006 Audited HK\$'000
<i>Notes</i>		
<b>Non-current liabilities</b>		
Interest-bearing bank and other borrowings	<b>101,368</b>	188,539
Advances from shareholders	<b>17,076</b>	21,896
Advances from minority shareholders of subsidiaries	<b>60,079</b>	53,249
Provision for severance payment	<b>32,313</b>	32,601
Deferred tax liabilities	<b>144,207</b>	139,755
Other financial liabilities	8 <b>72,992</b>	–
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<b>Total non-current liabilities</b>	<b>428,035</b>	436,040
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<b>Net assets</b>	<b>2,316,030</b>	1,735,364
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<b>Equity</b>		
Issued capital	<b>45,584</b>	45,584
Reserves	<b>1,626,015</b>	1,148,310
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Equity attributable to equity holders of the Company	<b>1,671,599</b>	1,193,894
Minority interests	<b>644,431</b>	541,470
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<b>Total equity</b>	<b>2,316,030</b>	1,735,364
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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Issued capital Unaudited HK\$'000	Other reserves Unaudited HK\$'000	Retained profits Unaudited HK\$'000	Attributable to equity holders of the Company Unaudited HK\$'000	Minority interests Unaudited HK\$'000	Total equity Unaudited HK\$'000
<b>At 1 January 2007</b>	<b>45,584</b>	<b>437,431</b>	<b>710,879</b>	<b>1,193,894</b>	<b>541,470</b>	<b>1,735,364</b>
<b>Profit for the period</b>	–	–	466,603	466,603	156,680	623,283
<b>Surplus on revaluation of land and building</b>	–	3,926	–	3,926	1,324	5,250
<b>Disposal of available-for-sale financial assets</b>	–	(2,925)	–	(2,925)	(965)	(3,890)
<b>Equity-settled share option arrangement</b>	–	4,144	–	4,144	1,417	5,561
<b>Exchange realignment</b>	–	5,957	–	5,957	2,905	8,862
<b>Total recognised income and expense for the period</b>	–	11,102	466,603	477,705	161,361	639,066
<b>Transfer to statutory reserves</b>	–	230	(230)	–	–	–
<b>Acquisition of additional interest in subsidiaries</b>	–	–	–	–	(1,097)	(1,097)
<b>Acquisition of subsidiaries</b>	–	–	–	–	1,791	1,791
<b>Disposal of subsidiaries</b>	–	–	–	–	(42,047)	(42,047)
<b>Dividend paid to minority shareholders of subsidiaries</b>	–	–	–	–	(17,047)	(17,047)
<b>At 30 June 2007</b>	<b>45,584</b>	<b>448,763</b>	<b>1,177,252</b>	<b>1,671,599</b>	<b>644,431</b>	<b>2,316,030</b>
At 1 January 2006	45,584	422,487	504,358	972,429	568,064	1,540,493
Profit for the period	–	–	96,786	96,786	30,551	127,337
Changes in fair value of available-for-sale financial assets	–	2,501	–	2,501	1,566	4,067
Exchange realignment	–	686	–	686	58	744
<b>Total recognised income and expense for the period</b>	–	3,187	96,786	99,973	32,175	132,148
Acquisition of minority interests	–	–	–	–	(153,326)	(153,326)
Acquisition of subsidiaries	–	–	–	–	12,010	12,010
Capital contribution from minority shareholders of subsidiaries	–	–	–	–	10,828	10,828
Transfer to statutory reserves	–	742	(742)	–	–	–
Dividend paid to minority Shareholders of subsidiaries	–	–	–	–	(1,500)	(1,500)
<b>At 30 June 2006</b>	<b>45,584</b>	<b>426,416</b>	<b>600,402</b>	<b>1,072,402</b>	<b>468,251</b>	<b>1,540,653</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2007	2006
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Net cash outflow from operating activities	<b>(279,168)</b>	(215,269)
Net cash inflow/(outflow) from investing activities	<b>115,308</b>	(157,834)
Net cash inflow from financing activities	<b>189,430</b>	350,318
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	<b>25,570</b>	(22,785)
Cash and cash equivalents at beginning of period	<b>285,765</b>	251,863
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Cash and cash equivalents at end of period	<b><u>311,335</u></b>	<u>229,078</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<b>387,388</b>	282,984
Time deposits with original maturity of less than Three months when acquired	<b>18,330</b>	16,130
Bank overdrafts	<b>(94,383)</b>	(70,036)
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	<b><u>311,335</u></b>	<u>229,078</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

### 1. Accounting policies

The unaudited condensed interim financial statements ("interim financial statements") have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Accounting Standards ("HKAS") No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants except in respect of the accounting for convertible note under HKAS 39.

During the period, the Group disposed of 51% equity interest in a subsidiary, Praise Rich Limited ("Praise Rich") at a consideration which was wholly satisfied by receiving a convertible note of HK\$408 million with a subscription right for shares exercisable anytime before the maturity date in 2012. The Group recognised that gain on disposal of the subsidiary with reference to the face value of convertible note as at the date of disposal. Under HKAS 39, the option to convert, being an embedded derivative attached to the convertible note, and the loan element of the convertible note should be carried at the fair value and amortised cost, respectively.

Had HKAS 39 been adopted, the impact on the financial statements would be as follows:

- (i) On the consolidated income statement, the gain on disposal of subsidiary would have been increased by approximately HK\$1.0 billion and an imputed interest income of approximately HK\$4.2 million would have been recognised for the interim period, and
- (ii) On the consolidated balance sheet, the value of the convertible note (the loan element and the embedded derivative) and the available-for-sale financial asset revaluation reserve as at 30 June 2007 would have been increased by approximately HK\$2.3 billion and HK\$1.3 billion respectively.

Other than as disclosed above, the accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2006.

These interim financial statements should be read, where relevant, in conjunction with the 2006 annual financial statements of the Group.

### 2. Turnover and segmental information

An analysis of the Group's consolidated turnover and contribution to profit/(loss) from operations by principal activity and geographical location for the six months ended 30 June 2007 and 2006 is as follows:

	Turnover		Contribution to profit/ (loss) from operations	
	Six months ended 30 June		Six months ended 30 June	
	2007 Unaudited HK\$'000	2006 Unaudited HK\$'000	2007 Unaudited HK\$'000	2006 Unaudited HK\$'000
By principal activity:				
Trading and manufacturing	847,517	630,557	12,304	(37,974)
Property investment and development	20,043	6,648	32,167	8,373
Travel and related services	1,087,516	917,963	17,391	11,308
Securities and financial services	120,797	78,393	43,796	9,069
Media and publications	93,292	98,621	(21,522)	(47,607)
Information and technology	27,550	39,984	(2,407)	(4,398)
Agriculture	950	882	(2,550)	(2,374)
Investment holding	—	466	401,466	210,631
	<b>2,197,665</b>	<b>1,773,514</b>	<b>480,645</b>	<b>147,028</b>

	Turnover		Contribution to profit/ (loss) from operations	
	Six months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006
	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By geographical location#:				
The People's Republic of China ("PRC", including Hong Kong and Macau)	1,421,906	1,220,386	466,317	190,953
United States of America	518,203	337,724	11,336	(17,279)
Europe	156,263	148,165	(33)	(17,799)
Japan	4,685	7,402	23	(2,408)
Others	96,608	59,837	3,002	(6,439)
	<u>2,197,665</u>	<u>1,773,514</u>	<u>480,645</u>	<u>147,028</u>

# Turnover by geographical location is determined on the basis of the location where merchandise is delivered and/or service is rendered.

### 3. Gain on disposal of subsidiaries

The subsidiaries disposed of were Nority International Group Limited ("NIG") and Praise Rich. Please refer to the section headed "MATERIAL ACQUISITIONS AND DISPOSALS".

### 4. Depreciation

Profit from operations for the period is arrived at after charging depreciation of approximately HK\$27,463,000 (six months ended 30 June 2006: HK\$28,880,000) in respect of the Group's property, plant and equipment.

### 5. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30 June 2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

### 6. Interim dividend

The Board declared the payment of an interim dividend of HK1.4 cent per ordinary share, totalling HK\$25,528,000 for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

### 7. Basic earnings per share attributable to equity holders of the Company

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of approximately HK\$466,603,000 (six months ended 30 June 2006: HK\$96,786,000) and on 1,823,401,376 shares (six months ended 30 June 2006: 1,823,401,376 shares) in issue during the period.

Diluted earnings per share is not shown, as there is no dilution effect for both periods.

### 8. Construction in progress, Convertible note and Other financial liabilities

During the period, 51% of Praise Rich's 80% interest in a property development project situated in a prime commercial area in the city of Shenyang, the PRC, to build a landmark commercial complex was injected into a related company of the Group, South China Land Limited ("SCL", formerly known as Capital Publications Limited), at a consideration of HK\$408 million. SCL is a company listed on the GEM Board of the Stock Exchange. The consideration was satisfied by a non-interest bearing convertible note with face value of HK\$408 million carrying a right to subscribe for the shares in SCL at HK\$0.075 per share exercisable any time before the maturity date in 2012. Simultaneously, the Group granted a land appreciation tax indemnity to SCL.

The transactions resulted in a reduction in the Construction in progress, and also two new items namely Convertible note and Other financial liabilities being recognized on the Consolidated Balance Sheet. Please refer to the section headed “**MATERIAL ACQUISITIONS AND DISPOSALS**”.

#### 9. Interests in associates

The amounts included advances to an affiliated company indirectly held by the Company and details are as follows:

Name of affiliated company	Proportion of issued capital held indirectly by the Company	Advances from the Group as at 30 June 2007 <i>HK\$'000</i>	Guarantees given by the Group <i>HK\$'000</i>
Firm Wise Investment Limited (“FWIL”) ( <i>note</i> )	30%	213,067	210,000

*Note:* The advances and guarantees given were used to finance a property development project in Hong Kong. The advances are unsecured, interest bearing at 0.5% per annum, repayable on demand and subordinated to the bank loans of the affiliated company. The guarantees given is to be matured in November 2010 of which approximately HK\$196,082,000 were utilized as at 30 June 2007.

The following details have been extracted from the unaudited financial statements of the Group’s significant associate, FWIL:

	As at 30 June 2007 <i>HK\$'000</i>
Assets	<u>1,696,203</u>
Liabilities	<u>(1,476,356)</u>

#### 10. Loans receivable

Included in loans receivable of which HK\$828,337,000 are loans receivable on Initial Public Offer financing activities.

#### 11. Trade receivables

Trade receivables of approximately HK\$664,966,000 (31 December 2006: HK\$379,024,000) are stated net of impairment for trade receivables, substantially with an aging within 6 months.

Impairment is recognised when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of the receivables.

#### 12. Trade payables

Trade payables of approximately HK\$807,160,000 (31 December 2006: HK\$684,948,000) are substantially with an aging within 6 months.

#### 13. Interest-bearing bank and other borrowings

Included in interest-bearing bank and other borrowings of which HK\$828,710,000 are interest-bearing bank and other borrowings on Initial Public Offer financing activities.



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The Group recorded turnover of HK\$2.2 billion and profit for the period of HK\$623.3 million, representing an increase of approximately 24% in turnover, and approximately 4 times the profit as compared to the corresponding period in 2006.

#### **Trading and Manufacturing**

The segment recorded a 34% growth in turnover to HK\$847.5 million and a profit of HK\$12.3 million as compared to a loss of HK\$38.0 million for the corresponding period in 2006.

Both the manufacturing of toys and shoes performed well in the first half of the year that substantially accounted for the growth in turnover and profit for the period. Orders for some hot promotional toy products increased together with the launch of movies in the spring season. Similarly, orders for both new and existing shoe items raised significantly early this year. These two manufacturing units turned around the historical low seasonal first-half-year negative result to profit for the trading and manufacturing segment.

During the period, the Group disposed of NIG, a subsidiary listed on the Stock Exchange engaging in manufacturing of athletes and leisure shoes, to an independent third party and realised a gain on disposal of approximately HK\$55.3 million. The Group maintained 35% interest in a subsidiary and the main shoe manufacturing company of NIG.

#### **Property Investment and Development**

Our rental portfolio reported a rental profit of HK\$12.2 million and a revaluation gain of HK\$20.0 million. Most of our investment properties had double-digit growth in rental income on renewal of tenancies, in particular for some quality commercial units.

Rental income rose also accounted for the contribution from our PRC properties after increasing the controlling stake in a joint venture that holds a sizable site in the prime retail district in Nanjing done last year. The properties in Nanjing region generated satisfactory rental profit for the first half of the year.

#### **Travel and Related Services**

The air ticketing sale business under Fourseas group outperformed the market with an overall growth of about 18% in turnover as compared with Hong Kong's air travel that recorded a strong 14% growth in the first half of the year. Despite the strong growth in turnover, Fourseas group successfully managed to control overheads by streamlining operations. Hence there was no significant increase in cost of operations.

The improved performances resulted in a bottom line of HK\$17.4 million before tax and finance costs, an increase of 54% compared with the corresponding period in 2006. Fourseas group is further consolidating its position as a leading wholesale air ticketing sales agent in the Hong Kong market with continued growth in its market share.

## **Securities and Financial Services**

The securities and financial services segment reported substantial increase in turnover to HK\$120.8 million and a profit of HK\$43.8 million, representing 54% and 4 times growth in turnover and profit respectively.

Commission income from securities and commodities broking as well as margin financing activities benefited from high trading volume of daily stock turnover. The money lending personal loan business also improved steadily with lower delinquency rate amidst stable economy.

During the period, the Group recognised gain on disposal of available-for-sale financial assets and fair value gain on overall financial assets at fair value through profit and loss of HK\$82.3 million and HK\$13.6 million respectively.

## **Media and Publications**

Consistent efforts have been made in terms of divesting several loss making magazines and tightening cost measures in both Hong Kong and the PRC in order to reduce the loss from our media arm. As a result, turnover dropped slightly from HK\$98.6 million to HK\$93.2 million while loss cut down from HK\$47.6 million to HK\$21.5 million as compared with the same period last year.

## **Information and Technology**

For IT segment, the same efforts as for our media operations on cutting administrative expenses and streamlining operations over the past 12 months. The segment's turnover dropped over 31%, but loss was reduced by 45% from HK\$4.4 million for the corresponding period in 2006 to HK\$2.4 million in the period under review.

## **Agriculture**

The agriculture business reported a loss of HK\$2.6 million over the period as compared with a loss of HK\$2.4 million for the first half of 2006. Operations remain stable while the business unit is still in its investment period.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2007, the Group had a current ratio of 1.08 and a gearing ratio of 4.4% (31 December 2006: 1.05 and 10.9% respectively). The gearing ratio is computed on comparing the Group's total long-term bank and other borrowings of HK\$101.4 million to total equity of HK\$2,316.0 million. The Group's operations and investments continue to be financed by internal resources and bank borrowings.

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

As at 30 June 2007, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

## **CAPITAL STRUCTURE**

On 5 September 2007, South China (China) Limited (“SCC”, formerly known as South China Industries Limited, a 74.79% owned subsidiary of the Company with its shares listed on the Main Board of Stock Exchange), issued 530,334,742 bonus warrants (“Warrants”) which entitle the holders to subscribe in cash for ordinary shares of HK\$0.02 each in SCC at a subscription price of HK\$0.40 per share (subject to adjustment) and are exercisable on or before 6 September 2010. The Warrants are issued to the shareholders of SCC whose names appear on the register of members of SCC on 29 August 2007 on the basis of one Warrant for every five ordinary shares of SCC held.

Save for the above, the Group had no debt securities or other capital instruments as at 30 June 2007 and as at the date of this report.

## **MATERIAL ACQUISITIONS AND DISPOSALS**

During the period, the Group had the following material acquisitions and disposals:

In January 2007, the Group disposed of its entire 95.35% interest in NIG to an independent third party at a consideration of HK\$105.4 million. At the same time, the Group acquired 100% interest in Nority (BVI) Limited (together with its loan due to NIG) and 35% interest in Nority Limited, wholly owned subsidiaries of NIG, at considerations of HK\$75.6 million and HK\$3.5 million respectively. Details of the transactions were set out in the circular of the Company dated 18 December 2006.

In March 2007, the Group disposed of 51% interest in Praise Rich and assigned a debt owed by the same of approximately HK\$47.7 million to SCL, a related company of the Group, at a consideration of HK\$408 million. The consideration was satisfied by a non-interest bearing convertible note with face value of HK\$408 million carrying a right to subscribe for shares in SCL at HK\$0.075 per share exercisable anytime before the maturity date in 2012. Under this transaction, the Group also granted a land appreciation tax indemnity to SCL and guarantees for certain existing and proposed loan facilities of Praise Rich or its subsidiaries as set out in the section headed “**PLEDGES OF ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS**”. Details of the transaction were set out in the circular of the Company dated 12 February 2007.

## **POST BALANCE SHEET EVENTS**

In July 2007, the Group disposed of the remaining 49% interest in Praise Rich and assigned a debt owed by the same of approximately HK\$45.8 million to SCL at a consideration of HK\$392 million. The consideration was satisfied by a non-interest bearing convertible note with face value of HK\$392 million carrying a right to subscribe for shares in SCL at HK\$0.075 per share exercisable any time before the maturity date in 2012. Under this transaction, the Group also granted an additional land appreciation tax indemnity to SCL. Details of the transaction were set out in the circular of the Company dated 13 June 2007.

In August 2007, the Company through its wholly owned subsidiaries acquired from SCC the entire of its interest in travel and information technology businesses at a consideration of HK\$122.1 million. In exchange, the Company through its wholly owned subsidiaries disposed of its entire interest in certain investment properties located in Hong Kong and the berths and membership debentures of a golf and country club at Sai Kung, Hong Kong to SCC at the same amount of consideration of HK\$122.1 million. Details of the transactions were set out in the circular of the Company dated 25 July 2007.

## **PLEDGES OF ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS**

As part of the terms for the sale of the 51% interest in Praise Rich in March 2007, the Group continues to grant the guarantee in favour of a bank to secure the loan facility of HK\$80 million of a subsidiary of Praise Rich. Such loan facility will expire in June 2009. The Group also undertook to provide a guarantee for three years from March 2007 to secure the due and punctual performance of the obligations of Praise Rich and any of its subsidiaries under a proposed loan facility of up to HK\$500 million.

Save for the above, there was no material change in the Group's pledges of assets and contingent liabilities as compared to the most recent published annual report.

## **EMPLOYEES**

As at 30 June 2007, the total number of employees of the Group was approximately 29,050. Performance of the staff is normally reviewed on an annual basis with adjustment compatible to the market. There is no material change in the information as compared to the most recently published annual report.

## **PROSPECTS**

### **Trading and Manufacturing**

The current environment facing toy manufacturers in Southern China is certainly at its most challenging chapter in history. Adverse trends in currency and all the cost factors will continue to affect manufacturers in Mainland. The current quality and product recall issues facing China as a whole will certainly deter and defer customers ordering sentiment in the short run. However, we believe retailers should have less appetite to drive prices down by using less than reliable manufacturers. In the long run, this will undoubtedly lead to price adjustments, which in turn will drive growth with reputable and sizeable manufacturers. We trust the long-standing reputation as market leader of both our principal manufacturing subsidiaries, Wah Shing Toys and the award-winning shoe operation in Tianjin in terms of reliability and quality, will give the Group a unique position to flourish despite the harsh and deteriorating conditions for the years ahead.

In addition, we are striving further efforts in the one-stop chain of toy manufacturing by investing into research and development and new technology that leading to our ability to offer original design manufacturer (ODM) business opportunities in the near coming future.

### **Property Investment and Development**

We expect our Hong Kong portfolio to continue to appreciate and the Group may consider divesting in the coming twelve months.

Management believes that the recent acquisition of equity stake in each and every one of our Nanjing's property portfolio will prove to be a key strategic move for the company in the years to come. Not only do we expect to improve existing rental income drastically over the next few years, we are also confident in unlocking the high development value of potential retail sites in our accumulated land bank.

On a similar scale, the Group currently controls sizable industrial use land bank in Tianjin. Based on our experience with commercializing industrial site in city centre in Nanjing, management believes there is further redevelopment potential of our Tianjin property portfolio which we will explore in the near future.

The transfer of the 80% equity interest in the property development project of a prime retail shopping complex in Shenyang to a related company listed on the GEM Board, SCL has fully completed in July 2007. The project is to build a landmark shopping centre in the central commercial district of Shenyang with gross retail rental floor area of approximately 117,200 square metres. As at the balance sheet date, the Group held a non-interest bearing convertible note in the principal amount of HK\$408 million (as shown on the consolidated balance sheet) due in 2012 carrying a right to subscribe for SCL shares at HK\$0.075 per share before maturity. Upon the conversion of the convertible note, the Group may hold up to 75% of SCL.

On top of the ongoing development at Shenyang, SCL will commence construction work for the 400,000 square metres property project located at the Tianjin-Bohai region in the second half of this year.

The Group is still actively seeking appropriate land parcels in Tianjin-Bohai, Chongqing, Shenyang and other rapid development region in the Mainland.

### **Travel and Related Services**

The strong economy and increasing air traffic are all positive factors for Fourseas group entering the second half of the year. Fourseas group will look to continue to build upon the positive results from the first half of the year and actively look for tourism related investment opportunities in China.

## **Securities and Financial Services**

We expect the broking business will remain strong in the second half of the year with the Central government policy to allow the Mainlanders to invest in the Hong Kong stock market. We strive to explore more business opportunities in the PRC market and to pursue acquisitions in the coming year as suitable opportunities arise.

## **Media and Publications**

Management will continue to focus the performance of individual magazines, enhance their contents and income while monitoring cost controls consciously. We will be looking to achieve breakeven for the whole of the second half year.

## **Information and Technology**

The information and technology operation will further expand in the provision of services and software development. We are still investigating the possibility of a listing on the London's Alternative Investment Market and other similar exchange.

## **Agriculture**

As of third quarter 2007, we have negotiated further acreage to total 60,000 mu (40 million square metres) of a forestry plantation project in Chongqing. We are looking to expand acreage in Jiangsu, Hebei and other provinces. Management's focus will be on multiplying the successful pig rearing model in Hebei as well as exploring a new revenue source in agricultural wholesale markets.

## **OTHER INFORMATION**

### **INTERIM DIVIDEND**

The Board declared an interim dividend of HK1.4 cent (2006: Nil) per share, totalling approximately HK\$25,528,000 (2006: Nil) for the six months ended 30 June 2007 to the shareholders whose names appear on the register of members of the Company on 12 October 2007. The interim dividend will be paid on or about 23 October 2007.

### **CLOSURE OF REGISTER FOR ENTITLEMENT TO INTERIM DIVIDEND**

The register of members of the Company will be closed from 11 October 2007 to 12 October 2007, both days inclusive, during which period no share transfers will be registered. To qualify for the interim dividend, all transfers accompanied by the relevant share certificates of the Company, must be lodged for registration with the Company's Share Registrar, Union Registrars Limited not later than 4:00 p.m. on 10 October 2007. The address of the Share Registrar is currently located at Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong will, as from 1 October 2007 be changed to Rooms 1901-02 Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong .

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 30 June 2007, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules, were as follows:–

**(a) Long positions in ordinary shares of the Company:**

Name of Director	Number of Shares held, capacity and nature of interest			Approximate percentage of the Company's issued share capital
	Beneficial owner	Interest of controlled corporations	Total	
Ng Hung Sang (“Mr. Ng”)	71,652,200	1,272,529,612	1,344,181,812 (Note a)	73.72%
Richard Howard Gorges (“Mr. Gorges”)	–	487,949,760	487,949,760 (Note a)	26.76%
Cheung Choi Ngor (“Ms. Cheung”)	–	487,949,760	487,949,760 (Note a)	26.76%

**(b) Long positions in ordinary shares of associated corporations:**

1. *Interests in shares*

- (i) South China Financial Holdings Limited (“SCFH”) (Note b)

Name of Director	Capacity and nature of interest	Number of ordinary shares held	Approximate
			percentage of the associated corporation's issued share capital
Mr. Ng	Interest of controlled corporations	3,660,502,500 (Note c)	73.08%
Mr. Gorges	Beneficial owner	12,174,000	0.24%

(ii) SCC (*Note d*)

<b>Name of Director</b>	<b>Capacity and nature of interest</b>	<b>Number of ordinary shares held</b>	<b>Approximate percentage of the associated corporation's issued share capital</b>
Mr. Ng	Interest of controlled corporations	396,641,357 ( <i>Note e</i> )	74.79%

(iii) South China Financial Credits Limited ("SCFC") (*Note f*)

<b>Name of Director</b>	<b>Capacity and nature of interest</b>	<b>Number of ordinary shares held</b>	<b>Approximate percentage of the associated corporation's issued share capital</b>
Mr. Ng Yuk Fung, Peter	Beneficial owner	250,000	0.59%

(iv) Prime Prospects Limited ("Prime Prospects") (formerly known as "The Express News Limited") (*Note g*)

<b>Name of Director</b>	<b>Capacity and nature of interest</b>	<b>Number of ordinary shares held</b>	<b>Approximate percentage of the associated corporation's issued share capital</b>
Mr. Ng	Interest of a controlled corporation	30 ( <i>Note h</i> )	30%



2. *Interests in underlying shares of SCFH*

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of underlying shares*</b>	<b>Approximate percentage of shareholding</b>
Mr. Gorges	Beneficial owner	30,000,000	0.60%
Ms. Cheung	Beneficial owner	30,000,000	0.60%
Mr. Ng Yuk Fung, Peter	Beneficial owner	50,000,000	1.00%

\* *Represents underlying shares subject to share options granted to the Directors, details of which are as follows:*

<b>Name of Director</b>	<b>Date of grant</b>	<b>Subscription price per share</b>	<b>No. of share options granted</b>	<b>Exercise period</b>
Mr. Gorges	16/03/2006	HK\$0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
Ms. Cheung	16/03/2006	HK\$0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
Mr. Ng Yuk Fung, Peter	16/03/2006	HK\$0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
	26/04/2006	HK\$0.128	6,666,667	26/04/2007 – 25/04/2009
			6,666,667	26/04/2008 – 25/04/2010
			6,666,666	26/04/2009 – 25/04/2011

*Notes:*

- (a) The 1,272,529,612 shares of the Company held by Mr. Ng through controlled corporations referred to above include 371,864,000 shares held by Parkfield Holdings Limited (“Parkfield”), 396,050,252 shares held by Fung Shing Group Limited (“Fung Shing”), 16,665,600 shares held by Ronastar Investments Limited (“Ronastar”), 237,303,360 shares held by Bannock Investment Limited (“Bannock”) and 250,646,400 shares held by Eartrade Investments Limited (“Eartrade”). Parkfield, Fung Shing and Ronastar are all wholly-owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Eartrade which is owned as to 60% by Mr. Ng, 20% by Ms. Cheung and 20% by Mr. Gorges, all of whom are considered as parties to an agreement to which Section 317 of the SFO applies. As such, Mr. Ng, Ms. Cheung and Mr. Gorges are deemed to have an interest in 487,949,760 shares, which are being held by both Bannock and Eartrade.
- (b) The Company owns approximately 73.08% of the issued share capital of SCFH.
- (c) The 3,660,502,500 shares of SCFH are held by certain wholly-owned subsidiaries of the Company. By virtue of the interests in the shares of the Company in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of the Company as described in Note (a) above and as a Director, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of SCF under the SFO.

- (d) SCC is a 74.79% owned subsidiary of the Company.
- (e) The 396,641,357 shares of SCC are held by certain wholly-owned subsidiaries of the Company. Subsequent to 30 June 2007, each of the issued and unissued shares of HK\$0.10 each in the capital of SCC were subdivided into 5 shares of HK\$0.02 each with effect from 22 August 2007. By virtue of the interests in the shares of the Company in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of the Company as described in Note (a) above and as a Director, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of SCC under the SFO.
- (f) SCFC is a 98.36% owned subsidiary of SCFH.
- (g) Prime Prospects is a 70% owned subsidiary of the Company.
- (h) Mr. Ng and his family, through a company wholly-owned and controlled by them, have interests in 30 shares of Prime Prospects.

Save as disclosed above, none of the directors or chief executive of the Company had, as at 30 June 2007, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## **INFORMATION ON SHARE OPTIONS SCHEMES**

The directors and employees of the Company and its subsidiaries are entitled to participate in share option schemes operated by the Company and its subsidiaries.

### **Scheme of the Company**

The Company adopted a share option scheme on 31 May 2002. No share option has been granted or is outstanding under the scheme of the Company since its adoption.

### **Scheme of SCC**

SCC adopted a share option scheme on 31 May 2002. No share option has been granted or is outstanding under the scheme of SCC since its adoption.

## Scheme of SCFH

SCFH adopted a share option scheme on 31 May 2002 and became effective on 28 June 2002.

Particulars and movements of the outstanding share options granted under the scheme of SCFH during the six months ended 30 June 2007 were as follows:–

Name or category of participant	Number of share options					Outstanding as at 30/06/2007	Date of grant of share options <i>(note a)</i>	Exercise period of share options	Subscription price per share <i>(note b)</i> HK\$	Price of SCFH's shares <i>(note c)</i>	
	Outstanding as at 01/01/2007	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period					Immediately preceding the grant date of share options HK\$ per share	Immediately preceding the exercise date of share options HK\$ per share
<b>Directors of the Company</b>											
Mr. Gorges	10,000,000	-	-	-	-	10,000,000	16/03/2006	16/03/2007 to 15/03/2009	0.128	0.104	N/A
	10,000,000	-	-	-	-	10,000,000	16/03/2006	16/03/2008 to 15/03/2010	0.128	0.104	N/A
	10,000,000	-	-	-	-	10,000,000	16/03/2006	16/03/2009 to 15/03/2011	0.128	0.104	N/A
Ms. Cheung	10,000,000	-	-	-	-	10,000,000	16/03/2006	16/03/2007 to 15/03/2009	0.128	0.104	N/A
	10,000,000	-	-	-	-	10,000,000	16/03/2006	16/03/2008 to 15/03/2010	0.128	0.104	N/A
	10,000,000	-	-	-	-	10,000,000	16/03/2006	16/03/2009 to 15/03/2011	0.128	0.104	N/A
Mr. Ng Yuk Fung, Peter	10,000,000	-	-	-	-	10,000,000	16/03/2006	16/03/2007 to 15/03/2009	0.128	0.104	N/A
	10,000,000	-	-	-	-	10,000,000	16/03/2006	16/03/2008 to 15/03/2010	0.128	0.104	N/A
	10,000,000	-	-	-	-	10,000,000	16/03/2006	16/03/2009 to 15/03/2011	0.128	0.104	N/A
	6,666,667	-	-	-	-	6,666,667	26/04/2006	26/04/2007 to 25/04/2009	0.128	0.110	N/A
	6,666,667	-	-	-	-	6,666,667	26/04/2006	26/04/2008 to 25/04/2010	0.128	0.110	N/A
	6,666,666	-	-	-	-	6,666,666	26/04/2006	26/04/2009 to 25/04/2011	0.128	0.110	N/A
Sub-total	<u>110,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>110,000,000</u>					

Name or category of participant	Number of share options						Date of grant of share options (note a)	Exercise period of share options	Subscription price per share (note b) HK\$	Price of SCFH's shares (note c)	
	Outstanding as at 01/01/2007	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding as at 30 June 2007				Immediately preceding the grant date of share options HK\$ Per share	Immediately preceding the exercise date of share options HK\$ Per share
<b>Employees of the Group</b>											
	36,000,000	-	(4,000,000)	(9,000,000)	-	23,000,000	16/03/2006	16/03/2007 - 15/03/2009	0.128	0.104	0.182
	36,000,000	-	-	(9,000,000)	-	27,000,000	16/03/2006	16/03/2008 - 15/03/2010	0.128	0.104	N/A
	36,000,000	-	-	(9,000,000)	-	27,000,000	16/03/2006	16/03/2009 - 15/03/2011	0.128	0.104	N/A
	6,666,667	-	-	-	-	6,666,667	26/04/2006	26/04/2007 - 25/04/2009	0.128	0.110	N/A
	6,666,667	-	-	-	-	6,666,667	26/04/2006	26/04/2008 - 25/04/2010	0.128	0.110	N/A
	6,666,666	-	-	-	-	6,666,666	26/04/2006	26/04/2009 - 25/04/2011	0.128	0.110	N/A
	-	16,666,667	-	-	-	16,666,667	16/02/2007	16/02/2008 -15/02/2010	0.128	0.090	N/A
	-	16,666,667	-	-	-	16,666,667	16/02/2007	16/02/2009 -15/02/2011	0.128	0.090	N/A
	-	16,666,666	-	-	-	16,666,666	16/02/2007	16/02/2010 -15/02/2012	0.128	0.090	N/A
	-	32,166,661	-	-	-	32,166,661	12/04/2007	12/04/2008 -11/04/2010	0.161	0.156	N/A
	-	32,166,661	-	-	-	32,166,661	12/04/2007	12/04/2009 -11/04/2011	0.161	0.156	N/A
	-	32,166,678	-	-	-	32,166,678	12/04/2007	12/04/2010 -11/04/2012	0.161	0.156	N/A
	-	1,000,000	-	-	-	1,000,000	17/04/2007	17/04/2008 -16/04/2010	0.161	0.148	N/A
	-	1,000,000	-	-	-	1,000,000	17/04/2007	17/04/2009 -16/04/2011	0.161	0.148	N/A
	-	1,000,000	-	-	-	1,000,000	17/04/2007	17/04/2010 -16/04/2012	0.161	0.148	N/A
	-	1,666,667	-	-	-	1,666,667	23/04/2007	23/04/2008 -22/04/2010	0.161	0.136	N/A
	-	1,666,667	-	-	-	1,666,667	23/04/2007	23/04/2009 -22/04/2011	0.161	0.136	N/A
	-	1,666,666	-	-	-	1,666,666	23/04/2007	23/04/2010 -22/04/2012	0.161	0.136	N/A
Sub-total	128,000,000	154,500,000	(4,000,000)	(27,000,000)	-	251,500,000					
Total	<u>238,000,000</u>	<u>154,500,000</u>	<u>(4,000,000)</u>	<u>(27,000,000)</u>	<u>-</u>	<u>361,500,000</u>					

Notes:

- (a) All share options granted are subject to a vesting period and becoming exercisable in the following manner:

<b>From the date of grant of share options</b>	<b>Exercisable percentage</b>
	%
Within 12 months	Nil
13th month – 36th month	33 $\frac{1}{3}$
25th month – 48th month	33 $\frac{1}{3}$
37th month – 60th month	33 $\frac{1}{3}$

The unexercised share options of each exercise period shall lapse at the end of the respective exercise period.

- (b) The subscription price of the shares of SCFH is subject to adjustment in the case of rights or bonus issues, or other alteration in the capital structure of SCFH.
- (c) The price of SCFH's shares disclosed as immediately preceding the grant date of the share options is the closing price of the shares on the Stock Exchange on the trading day immediately prior to the date of the grant of the share options. The price of SCFH's shares disclosed immediately preceding the exercise date of the share options is the weighted average of the closing prices of the shares on the Stock Exchange immediately before the date on which the options were exercised.

The fair value of the share options granted during the period was HK\$17,418,773 of which the SCFH Group recognized a share option expense of HK\$5,561,038 during the period ended 30 June 2007.

The fair value of equity-settled share options granted during the period was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options was granted. The following table lists the inputs to the model used for the six months ended 30 June 2007:

<b>Date of grant</b>	<b>16 February 2007</b>	<b>12 April 2007</b>	<b>17 April 2007</b>	<b>23 April 2007</b>
Dividend yield (%)	0	0	0	0
Average expected volatility (%)	75.65	78.04	78.28	78.23
Average historical volatility (%)	75.65	78.04	78.28	78.23
Average risk-free interest rate (%)	4.144	4.036	4.081	3.981
Expected life of option (year)	3-5	3-5	3-5	3-5
Closing share price (HK\$)	0.092	0.161	0.138	0.138

The expected life of the options is based on the contractual life and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

## Scheme of NIG

NIG adopted a share option scheme on 10 June 2003. Under the scheme of NIG, the directors of NIG may, in their absolute discretion, grant share options to the eligible participants to subscribe for shares in NIG. NIG ceased to be a subsidiary of the Company on 5 January 2007. No option was granted or was outstanding under the scheme of NIG up to and including 5 January 2007.

Save as disclosed above, none of the directors or chief executives of the Company had, as at 30 June 2007, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2007, other than the interest and short positions of the directors and chief executives of the Company as disclosed above, the following persons had interest and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of SFO:—

### Long positions in the Shares

Name of Shareholder	Number of ordinary Shares held	Capacity and nature of interest	Approximate percentage of the Company's issued share capital
Eartrade	487,949,760 (Note)	Beneficial owner and interest of a controlled corporation	26.76%
Bannock	237,303,360 (Note)	Beneficial owner	13.01% (Note)
Parkfield	371,864,000	Beneficial owner	20.39%
Fung Shing	396,050,252	Beneficial owner	21.72%

#### Note:

Bannock is a wholly-owned subsidiary of Eartrade. The 487,949,760 shares in the Company held by Eartrade include 237,303,360 shares held by Bannock directly.

Save as disclosed above, as at 30 June 2007, the Company had not been notified by any other persons (other than the directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company complied with the Code on Corporate Governance Practices (the “CG Code”) of the Listing Rules throughout the six months ended 30 June 2007 with exception to code provision A.4.1 that non-executive directors of the Company were not appointed for a specific term and to code provision A.4.2 that the Articles of Association of the Company did not provide that (a) every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years; and (b) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting of the Company after their appointment.

In order to comply with the code provision A.4.2 of CG Code, a special resolution was passed at the annual general meeting of the Company on 22 May 2007 to amend the Articles of Association of the Company, inter alia, to the effect that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years and all newly appointed directors should be subject to re-election by shareholders at the first general meeting of the Company after their appointment.

As all non-executive directors of the Company are subject to the retirement and rotation requirements in accordance with the Company’s Articles of Association, the Board considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than code provision A.4.1 of the CG Code of the Listing Rules.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

During the period ended 30 June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

## **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference in compliance with the Listing Rules. The principal duties of the audit committee include the review of the Group’s audit plan and process with the Auditors, the independence of the Auditors, the Group’s financial statements and system of internal control. The audit committee comprises three independent non-executive directors namely Mr. Cheng Hong Kei (Committee Chairman), Mr. David John Blackett and Mrs. Tse Wong Siu Yin, Elizabeth and one non-executive director namely Mr. David Michael Norman.

The Group’s unaudited results for the six months ended 30 June 2007 have been reviewed by the audit committee, which was of the opinion that such results have been prepared in accordance with HKAS except the accounting for convertible note under HKAS 39 and that adequate disclosures have been made.

The management considered that the application of cost method on this transaction better reflects the true financial position of the Group before and after the exercise of the convertible note. The main purpose of the Group to dispose of the interest in Praise Rich to SCL was to transfer the assets of the Group to a related company. Nevertheless, the Audit Committee would normally encourage a full adoption of HKAS 39 on this transaction.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code as the code of conduct regarding directors' securities transactions. All directors have confirmed, following specific enquiry by the Company, their compliance with the required standards of dealings and the code of conduct regarding directors' securities transaction adopted by the Company throughout the period.

On behalf of the Board

**Ng Hung Sang**

*Chairman*

Hong Kong, 5 September 2007

*As at the date of this report, the Board comprises (1) Mr. Ng Hung Sang, Mr. Richard Howard Gorges, Ms. Cheung Choi Ngor and Mr. Ng Yuk Fung Peter as executive directors; (2) Mr. David Michael Norman and Ms. Ng Yuk Mui, Jessica as non-executive directors; and (3) Mr. David John Blackett, Mrs. Tse Wong Siu Yin, Elizabeth and Mr. Cheng Hong Kei as independent non-executive directors.*