INTERIM REPORT 2009

21 Holdings Limited
21控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 01003

The board of directors (the "Board") of 21 Holdings Limited (the "Company") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2009 as follows:

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

	Notes	Six months ended 30 June 2009 HK$'000 (unaudited)	2008 HK$'000 (unaudited)
Revenue	3	**85,272**	66,507
Cost of sales		**(68,557)**	(64,136)
Gross profit		**16,715**	2,371
Other income		**372**	1,782
Distribution costs		**(2,168)**	(1,866)
Administrative expenses		**(15,581)**	(8,845)
Fair value loss on derivative component of convertible notes	13	**(106,441)**	—
Other operating expenses		**—**	(4,754)
Finance costs	4	**(5,268)**	—
Loss before income tax	5	**(112,371)**	(11,312)
Income tax	6	**(308)**	—
Loss for the period		**(112,679)**	(11,312)
Other comprehensive income		**—**	—
Total comprehensive income for the period		**(112,679)**	(11,312)
Loss and total comprehensive income for the period attributable to:			
Equity holders of the Company		**(112,679)**	(11,312)
Minority interests		**—**	—
		(112,679)	(11,312)
		HK$	HK$ (restated)
Loss per share for loss attributable to the equity holders of the Company during the period	8		
Basic		**(0.83)**	(0.18)
Diluted		**N/A**	N/A

Condensed Consolidated Statement of Financial Position

As at 30 June 2009

	Notes	30 June 2009 HK$'000 (unaudited)	31 December 2008 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*9*	**139**	533
Investment properties		**14,294**	14,482
Goodwill		**256,000**	256,000
		270,433	271,015
Current assets			
Trade and other receivables	*10*	**55,411**	27,008
Bank balances and cash		**12,419**	11,888
		67,830	38,896
Current liabilities			
Trade and other payables	*11*	**57,013**	31,149
Amount due to a director		**—**	862
Promissory note	*12*	**70,000**	—
Convertible notes — derivative component	*13*	**110,915**	—
Provision for tax		**72**	4,095
		238,000	36,106
Net current (liabilities)/assets		**(170,170)**	2,790
Total assets less current liabilities		**100,263**	273,805
Non-current liabilities			
Promissory note	*12*	**—**	100,000
Convertible notes — liability component	*13*	**133,294**	117,352
		133,294	217,352
NET (LIABILITIES)/ASSETS		**(33,031)**	56,453
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*14*	**2,179**	156,456
Reserves		**(35,210)**	(100,003)
(CAPITAL DEFICIENCIES)/TOTAL EQUITY		**(33,031)**	56,453

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009

	(unaudited) Attributable to equity holders of the Company					
	Share capital HK$'000	**Share premium** HK$'000	**Capital reserve** HK$'000	**Convertible notes equity reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2008	156,456	168,098	2,099	—	(79,019)	247,634
Loss for the period (Total recognised income and expenses for the period)	—	—	—	—	(11,312)	(11,312)
At 30 June 2008	156,456	168,098	2,099	—	(90,331)	236,322
At 1 January 2009	**156,456**	**168,098**	**2,099**	**14,679**	**(284,879)**	**56,453**
Loss for the period (Total recognised income and expenses for the period)	**—**	**—**	**—**	**—**	**(112,679)**	**(112,679)**
Elimination of accumulated losses of the Company *(note 14a)*	**(155,830)**	**(168,098)**	**—**	**—**	**323,928**	**—**
Issue of shares upon placement of shares	**1,553**	**21,642**	**—**	**—**	**—**	**23,195**
At 30 June 2009	**2,179**	**21,642**	**2,099**	**14,679**	**(73,630)**	**(33,031)**

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2009

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	**(10,509)**	(53,764)
Net cash from/(used in) investing activities	**25**	(24,134)
Net cash from financing activities	**11,015**	—
Net increase/(decrease) in cash and cash equivalents	**531**	(77,898)
Cash and cash equivalents at beginning of the period	**11,888**	235,437
Cash and cash equivalents at end of the period, represented by bank balances and cash	**12,419**	157,539

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

1. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and include the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

These condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2008.

At 30 June 2009, the Group had net current liabilities of approximately HK$170,170,000 and net liabilities of approximately HK$33,031,000. The Group's current liabilities as at 30 June 2009 included a promissory note of HK$70,000,000 due to Mr. Ng Kai Man, the Chairman of the Company, ("Mr. Ng") and the derivative component of convertible notes issued by the Company of approximately HK$110,915,000. Taking into account that Mr. Ng has confirmed not to demand repayment of the promissory note until the Group has sufficient fund for its operations and such repayment and that the derivative component of the convertible notes has been transferred to and recorded as share premium upon the conversion of the convertible notes in July 2009 (as disclosed in note 17(a)), the directors of the Company (the "Directors") are in the opinion that the Group will be able to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the interim financial information has been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies adopted in preparing these condensed consolidated financial statements are consistent with those used in the annual financial statements of the Group for the year ended 31 December 2008 except for the adoption of a number of new and revised standards, amendments and interpretations issued by the HKICPA (the "New HKFRSs") which are relevant to and effective for the Group's financial year beginning on 1 January 2009.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

HKAS 1 (Revised) "Presentation of Financial Statements" has resulted in certain changes to the format and titles of the financial statements and to the presentation of some items within these statements. It also gives rise to additional disclosures. HKFRS 8 "Operating Segments" requires the reportable segment information to be based on internal management reporting information that is regularly reviewed by the chief operating decision marker. It replaces the requirement under the predecessor standard, HKAS 14, to determine two set of segments (business and geographical). The application of HKFRS 8 has not resulted in redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 *(see note 3)*. The adoption of the New HKFRSs has no material impact on how the results and financial position of the Group for the current and prior periods have been prepared. Accordingly, no prior period adjustment is required.

3. SEGMENT INFORMATION

The Group is organised into three reportable segments:

Business segment	Nature of business activities
1. Toy products trading	Sourcing and distribution of toy, gift and premium products
2. Property agency *	Provision of property agency and related services
3. Securities trading and investments	Trading and investing of marketable securities

* Property agency segment has been commenced in July 2008

3. SEGMENT INFORMATION *(Continued)*

	Six months ended 30 June 2009			
	Toy products trading HK$'000	**Property agency** HK$'000	**Securities trading and investments** HK$'000	**Group** HK$'000
Revenue				
External sales	**35,084**	**50,188**	**—**	**85,272**
Segment results	**(2,793)**	**4,853**	**—**	**2,060**
Unallocated operating income and expenses				**(2,722)**
Fair value loss on derivative component of convertible notes				**(106,441)**
Finance costs				**(5,268)**
Loss before income tax				**(112,371)**
Income tax				**(308)**
Loss for the period				**(112,679)**

	Six months ended 30 June 2008		
	Toy products trading HK$'000	Securities trading and investments HK$'000	Group HK$'000
Revenue			
External sales	66,507	—	66,507
Segment results	(1,883)	(3,917)	(5,800)
Unallocated operating income and expenses			(5,512)
Finance costs			—
Loss before income tax			(11,312)
Income tax			—
Loss for the period			(11,312)

4. FINANCE COSTS

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Interest charges on:		
Bank loans and other borrowings wholly repayable within five years	**4**	—
Convertible notes	**3,937**	—
Promissory note	**1,327**	—
	5,268	—

5. LOSS BEFORE INCOME TAX

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Loss before income tax is arrived at after charging (crediting):		
Staff costs (include Directors' emoluments)	**7,122**	2,167
Cost of inventories recognised as expense	**33,558**	64,136
Depreciation	**261**	259
Loss on disposal of financial assets at fair value through profit or loss (expensed in other operating expenses)	**—**	4,754
Loss on disposal of property, plant and equipment	**296**	—
Operating lease payments for premises	**1,940**	225

6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2008: 16.5%) on the estimated assessable profit for the period.

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Current tax		
Hong Kong profits tax	**296**	—
Under provision in respect of prior years	**12**	—
	308	—

No deferred tax asset has been recognised in respect of the unused tax losses of the Group due to the unpredictability of future profit streams.

7. DIVIDENDS

No dividends were paid during the period. The Board does not recommend payment of interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: nil).

8. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	Six months ended 30 June	
	2009	2008
	HK$'000	HK$'000
Loss attributable to equity holders of the Company for the purpose of basic loss per share	**(112,679)**	(11,312)
	Number of shares	Number of shares
	'000	'000
		(restated)
	(note a)	*(note b)*
Weighted average number of ordinary shares for the purpose of basic loss per share	**135,369**	62,582

8. LOSS PER SHARE *(Continued)*

Notes:

a. The weighted average number of shares for the six months ended 30 June 2009 was adjusted to reflect the share consolidation of every twenty shares of HK$0.125 each of the Company into one share of HK$2.5 each, which became effective on 12 February 2009 (the "Share Consolidation").

b. The weighted average number of shares for the six months ended 30 June 2008 was adjusted to reflect the share consolidation of every five shares of HK$0.025 each of the Company into one share of HK$0.125 each with effect from 15 July 2008 and the Share Consolidation.

Diluted loss per share for the six months ended 30 June 2009 and 2008 have not been presented because the impact of the conversion of convertible notes was anit-dilutive.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2009, the Group acquired property, plant and equipment with cost of approximately HK$13,000 (six months ended 30 June 2008: HK$18,572,000) and disposed of property, plant and equipment with net book value of approximately HK$334,000 (six months ended 30 June 2008: nil).

10. TRADE AND OTHER RECEIVABLES

	30 June 2009 **HK$'000**	31 December 2008 HK$'000
Trade receivables		
From third parties	**50,737**	20,513
Less: provision for impairment of receivables	**(2,093)**	(2,101)
	48,644	18,412
Other receivables		
Deposits, prepayments and other receivables	**6,767**	8,596
	55,411	27,008

10. TRADE AND OTHER RECEIVABLES *(Continued)*

For toy products trading segment, the Group allows an average credit period ranging from 30 to 90 days to its trade customers. For property agency segment, the customers are obliged to settle the amounts upon completion of the relevant agreements and no general credit facilities are available. Based on the invoice dates and relevant agreements, the ageing analysis of trade receivables (net of impairment losses for bad and doubtful debts) as of the balance sheet date is as follows:

	30 June 2009 HK$'000	31 December 2008 HK$'000
0 to 30 days	12,392	7,533
31 to 60 days	17,743	2,422
61 to 90 days	6,871	797
Over 90 days	11,638	7,660
	48,644	18,412

11. TRADE AND OTHER PAYABLES

	30 June 2009 HK$'000	31 December 2008 HK$'000
Trade payables	33,574	11,891
Accrued charges and other creditors	23,439	19,258
	57,013	31,149

The ageing analysis of trade payables as at the balance sheet date is as follows:

	30 June 2009 HK$'000	31 December 2008 HK$'000
0 to 30 days	6,043	2,413
31 to 60 days	10,439	1,734
61 to 90 days	5,693	490
Over 90 days	11,399	7,254
	33,574	11,891

12. PROMISSORY NOTE

The promissory note was issued to Mr. Ng. The amount is unsecured, bears interest at 3% per annum and due on 23 January 2010. During the six months ended 30 June 2009, the Group has repaid HK$30,000,000 of the promissory note.

13. CONVERTIBLE NOTES

	Liability component HK$'000	Derivative component HK$'000
At 1 January 2008	—	—
Net carrying amounts on initial recognition	115,321	—
Imputed interest expenses	3,185	—
Interest on convertible notes accrued	(1,154)	—
Net carrying amounts at 31 December 2008 and 1 January 2009	**117,352**	**—**
Net carrying amounts on initial recognition *(note a)*	**13,346**	**53,936**
Imputed interest expenses	**3,937**	**—**
Interest on convertible notes accrued	**(1,341)**	**—**
Changes in fair value *(note a)*	**—**	**56,979**
Net carrying amounts at 30 June 2009	**133,294**	**110,915**

Notes:

a. On 15 May 2009, the Company issued 2-year 2.25% convertible notes with an aggregate principal amount of HK$18,000,000 (the "CNs"). The CNs are convertible into shares of the Company at an initial conversion price of HK$0.18 per share at any time from the fifteenth day after the date of issue up to and including the date which is fifteen days prior to the maturity date of the CNs. Besides the anti-dilution adjustments, the conversion price will be adjusted to the average closing price of the shares of the Company for the five trading days ending on the day immediately preceding the date of a relevant conversion notice, if lower than HK$0.18, but subject to a limit of not less than HK$0.15. Further details of the CNs have been set out in the circular of the Company dated 12 January 2009.

The CNs were split into liability and derivative components upon initial recognition. The excess of the fair values of the liability and derivative components over the net proceeds from the issue of the CNs was recognised as the fair value loss on the derivative component of the CNs in the income statement.

The derivative component of the CNs is revalued to its fair value using Binominal model at the balance sheet date and change in fair values is recognised as an expense in the income statement. During the six months ended 30 June 2009, the fair value loss resulted from initial recognition and revaluation at the balance sheet date was HK$106,441,000 (six months ended 30 June 2008: nil).

b. None of the convertible notes issued by the Company were converted into shares of the Company during the six months ended 30 June 2009. Conversions after 30 June 2009 were disclosed in note 17(a).

14. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Authorised:		
Ordinary shares		
At 1 January 2008, at HK$0.025 each	20,000,000	500,000
Share consolidation of five ordinary shares of HK$0.025 each into one ordinary share of HK$0.125 each	(16,000,000)	—
At 31 December 2008 and 1 January 2009, at HK$0.125 each	**4,000,000**	**500,000**
Share Consolidation *(note a)*	**(3,800,000)**	**—**
Share Subdivision *(note a)*	**49,800,000**	**—**
At 30 June 2009, at HK$0.01 each	**50,000,000**	**500,000**
Issued and fully paid:		
Ordinary shares		
At 1 January 2008, at HK$0.025 each	6,258,230	156,456
Share consolidation of five ordinary shares of HK$0.025 each into one ordinary share of HK$0.125 each	(5,006,584)	—
At 31 December 2008 and 1 January 2009, at HK$0.125 each	**1,251,646**	**156,456**
Share Consolidation *(note a)*	**(1,189,064)**	**—**
Capital Reduction *(note a)*	**—**	**(155,830)**
Issue of shares upon placing of shares *(note b)*	**155,300**	**1,553**
At 30 June 2009, at HK$0.01 each	**217,882**	**2,179**

14. SHARE CAPITAL *(Continued)*

Notes:

a. Pursuant to a special resolution passed in a special general meeting of the Company, the Company effect a capital reorganisation (the "Capital Reorganisation") on 12 February 2009 which involved:

   i. every twenty shares of HK$0.125 each in both the issued and unissued share capital of the Company were consolidated into one consolidated share of HK$2.50 (the "Share Consolidation");

   ii. the par value of each issued consolidated share was reduced from HK$2.50 to HK$0.01 by cancellation of HK$2.49 of the paid-up capital on each consolidated share (the "Capital Reduction");

   iii. each of the authorised but unissued consolidated share in the capital of the Company of par value of HK$2.50 was subdivided into 250 shares of par value of HK$0.01 each (the "Share(s)") (the "Share Subdivision");

   iv. the entire amount of the share premium account of the Company was cancelled (the "Share Premium Reduction"); and

   v. the credit arising from the Capital Reduction and the Share Premium Reduction was applied to eliminate the accumulated losses of the Company.

   Details of the Capital Reorganisation were set out in the circular of the Company dated 12 January 2009.

b. Pursuant to a placing agreement dated 17 December 2008, 130,000,000 Shares and 25,300,000 Shares were issued and allotted at a consideration of HK$0.15 per Share on 31 March 2009 and 14 May 2009 respectively.

15. RELATED PARTIES TRANSACTIONS

During the period, the Group had the following transactions with related party:

	Six months ended 30 June	
	2009	2008
Related party relationship	**HK$'000**	HK$'000
Company under common control by executive director of the Company		
Referral income received	**42**	—

16. CONTINGENT LIABILITIES

On 8 October 2004, Mr. Kwok Chin Wing ("Kwok"), a former director of the Company, commenced legal proceedings (the "Action") against the Company in respect of the loans due from two former subsidiaries of the Company, namely, Rockapetta Industrial Company Limited and Grand Extend Investment Limited, for a sum of approximately HK$44.5 million and accrued interest thereof.

The Action is still pending in the High Court of Hong Kong SAR. The Company had already completed discovery of all documentary evidence and exchange of witness statements as to the fact pursuant to the directions of the Court and also obtained Counsel's advice on the pleadings, evidence and merit of defence in the Action. The Company was ready to proceed with the trial of the Action since early 2006.

However, Kwok took out applications in the Action in July 2006 for substantial amendments to his Re-Re-Amended Statement of Claim (the "Amendment Application") and joinder of party to the Action (the "Joinder Application"). The Amendment Application and the Joinder Application had substantially delayed the setting down of the Action for trial.

The Amendment Application and the Joinder Application were granted by the Court on 19 April 2007. The newly joined Defendant had filed his Defence and the Company had also properly dealt with all consequential amendments to the pleadings. Discovery and inspection of documentary evidence between Kwok and the newly joined Defendant were completed. Kwok and the newly joined Defendant have also filed and exchanged their Supplemental Witness Statement. Recently, Kwok indicated that further amendment to his Statement of Claim would be required. However, no step has been taken by Kwok to apply for further amendment to his Statement of Claim so far.

Notwithstanding the contemplated amendments to the Re-Re-Re-Amended Statement of Claim, the Solicitors and Counsel acting for the Company still hold good of their advice previously delivered to the Company. With the benefit of the advice of Solicitors and Counsel acting for the Company, the directors of the Company formed the opinion that Kwok does not have a valid claim against the Company and therefore it is unlikely to have any material adverse financial impact on the Group.

17. POST BALANCE SHEET EVENTS

(a) In July 2009, the entire principal amount of the CNs (as disclosed in note 13) has been converted at the conversion price of HK$0.18 per Share and accordingly 99,999,994 Shares have been issued and allotted. The fair value of the derivative component and the amortised cost of the liability component of the CNs at the conversion dates were transferred to and recorded as the share capital and share premium of the Company.

(b) On 24 July 2009, Century Profit Investments Limited, a wholly-owned subsidiary of the Company, ("Century Profit") entered into a conditional investment collaboration agreement (the "Agreement") to establish a joint venture company (the "JV Company") with Champion Wind Energy Investment and Management Limited ("Champion"). The JV Company was proposed to be held 80% and 20% by Century Profit and Champion respectively and to be principally engaged in running renewable energy business, including Huitengxile Wind Farm located at Chahaeryouyihouqi, Wulanchabu City, Inner Mongolia Autonomous Region, the PRC. The establishment of the JV Company would constitute a major transaction and a discloseable transaction for the Company under the Listing Rules.

However, in view of the change in the market condition of alternate energy business in the PRC, Century Profit and Champion mutually agreed and entered into agreement on 8 September 2009 to terminate the Agreement, upon which both Century Profit and Champion would not have any obligation or liabilities towards each other under the Agreement. Details of the Agreement and the termination are set out in the announcements of the Company dated 30 July 2009 and 8 September 2009.

Management Discussion and Analysis

BUSINESS AND OPERATION REVIEW

The outbreak of financial crisis in the last quarter of 2008 awfully hit the global economy. Since then, the management has taken various measures to sail through the adversity. In the first quarter of 2009, two self-operating property agency branches were closed down. Besides, the Group also refined its positioning and directed more resources to the primary property market.

The revival of the property market in Hong Kong and the launch of a number of large-scaled residential projects in the second quarter of 2009 benefited the adapted Group. The property agency segment reported revenue of HK$50.2 million for the six months ended 30 June 2009. The revenue from the property agency business for the last five months of year 2008 after the completion of the acquisition of Century 21 Hong Kong Limited and its associated companies (the "C21 Group") in July 2008 was HK$15.7 million only. Profits before income tax from the property agency segment for the review period was HK$4.9 million whilst the segment loss (excluding the provision for impairment loss on goodwill) for the last five months of year 2008 was HK$3.0 million.

Nonetheless, the revival has not much stretched to the consumer industry. Toy trading segment of the Group remained weak in the first half of 2009 after the economy downturn. Revenue from this segment during the six months ended 30 June 2009 was HK$35.1 million, being a drop of HK$31.4 million or 47.2% when compared with the corresponding period in 2008. Even though the profit margin was maintained at a steady level, the reduced gross profit hardly covered the distribution costs and the administrative expenses and the toy trading segment reported a loss of HK$2.8 million.

Similar to the property market, the financial market has resumed its dynamics since the second quarter this year. However, the sluggish economic statistic still cast uncertainty to the investment environment and thus the management continued its prudent approach and did not involve in any securities trading and investment during the period under review.

PROSPECTS

With the backdrop of historical low interest rate and moderate inflation rate, the management is in the view that the property market will continue to prosper in the second half of 2009 and is confident that the property agency segment will have a remarkable growth when compared with year 2008. The management also envisages that the toy trading segment will be moderately improved but remains difficult.

Searching for promising opportunities to enhance the performance and value of the Group is always the key task of the management. In July 2009, the Group had entered into a conditional agreement to invest in a renewable energy project in the Mainland China. However, because of the recent changes in market condition, the management considered the attractiveness of this particular sector diminished and decisively retreated from this proposed investment. Nevertheless, the Board will keep on looking for suitable and favorable investments for healthy growth of the Group and better return to the shareholders.

Financial Review

REVIEW OF RESULTS

The Group reported revenue of HK$85.3 million for the six months ended 30 June 2009, representing an increase of HK$18.8 million or 28.3% when compared with that of the last corresponding period. Gross profit improved by HK$14.3 million from HK$2.4 million for the last corresponding period to HK$16.7 million. Increases in revenue and gross profit were principally due to the acquisition of C21 Group in July last year, which has generated new revenue and profit stream for the Group and offset the shrinkage effect from the lessened toy trading segment in the period under review.

For the same reason, C21 Group pushed up the distribution costs and administrative expenses of the Group. Finance cost incurred during the six months ended 30 June 2009 was essentially the interest charged for the promissory note and the convertible note issued by the Group as part of the consideration for the acquisition of C21 Group in July 2008. Loss for this reporting period was HK$112.7 million, substantially contributed by the noteworthy fair value loss of HK$106.4 million which was resulted from the valuation of the conversion options embedded in HK$18.0 million convertible notes issued by the Company in May 2009.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2009, the Group's net current liabilities was HK$170.2 million, principally comprised of a promissory note of HK$70.0 million and the derivative component of the convertible notes issued by the Company in May 2009. Taking into account that Mr. Ng, Chairman of the Company and holder of the promissory note, has confirmed not to demand repayment until the Group has sufficient funds to meet its operations and such repayment and that the derivative component has already been transferred to and recorded as share premium in July 2009 upon the full conversion of the relevant convertible notes, the Directors are of the opinion that the Group has sufficient financial resources for its operations.

Gearing ratio, expressed as the percentage of total borrowings over total capital, of the Group as at 30 June 2009 was 119.4% (31 December 2008: 79.4%). Total capital is calculated as total equity plus total borrowings. The upsurge in gearing ratio was caused by the substantial loss incurred by the Company which resulted in reduction in equity.

CAPITAL STRUCTURE

On 12 February 2009, the Company effected a capital reorganisation which included:

a. share consolidation of every twenty shares of HK$0.125 each into one consolidated share of HK$2.50 each;
b. capital reduction of the par value of each issued consolidated share from HK$2.50 to HK$0.01 by cancellation of HK$2.49 of the paid-up capital on each consolidated share; and
c. cancellation of the entire balance in the share premium account of the Company.

A total of credit of approximately HK$323.9 million was arisen from the capital reorganisation and was applied to eliminate the accumulated losses of the Company.

Furthermore, 155,300,000 new shares of HK$0.01 each were allotted and issued by the Company during the review period pursuant to a share placing agreement approved by the shareholders of the Company on 11 February 2009.

As at 30 June 2009, there were convertible notes in issue, the aggregate principal amount of which were HK$148.0 million. One of the convertible notes with principal amount of HK$130.0 million is held by Mr. Ng and convertible into 129,224,652 shares of the Company at a conversion price of HK$1.006. The remaining convertible notes with principal amount of HK$18.0 million have been fully converted into 99,999,994 new shares of the Company at conversion price of HK$0.18 in July 2009.

CHARGES ON ASSETS

As at 30 June 2009 and 31 December 2008, none of the assets of the Group was under charges.

EXPOSURE TO EXCHANGE RATES

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong dollars, United States dollars and Renminbi. The Group's exposure to United States dollars currency risk is minimal as Hong Kong dollars is pegged to United States dollars. Nevertheless, operations and performances of the Group might be affected by the fluctuation of Renminbi. Presently, the Group does not have any currency hedging policy but will closely monitor Renminbi exchange rate and take appropriate measures to minimise any adverse impact that may be caused by its fluctuation.

CONTINGENT LIABILITIES

The Group has no material contingent liabilities save that a writ of summons dated 8 October 2004 was filed by Mr. Kwok Chin Wing, a former director of the Company, against the Company in respect of the loans due from two former subsidiaries of the Company for a sum of approximately HK$44.5 million together with accrued interests thereof (the "Action").

The Company had already completed discovery of all documentary evidence and exchange of witness statements and was ready to proceed with the trial since early 2006. However, Mr. Kwok took out applications in July 2006 for substantial amendments to his Re-Re-Amended Statement of Claim and joinder of party to the Action, both of which were granted by the Court on 19 April 2007. Mr. Kwok and the newly joined defendant have completed discovery and inspection of documentary evidence and also have filed and exchanged their supplemental witness statement. Recently, Mr. Kwok indicated that further amendment to his statement of claim would be required. However, no step has been taken by Mr. Kwok to apply for further amendment to his statement of claim so far.

Notwithstanding the contemplated amendments to the Re-Re-Re-Amended Statement of Claim, the solicitors and counsel acting for the Company still hold good of their advice previously delivered to the Company. With the benefit of the advice of solicitors and counsel acting for the Company, the Directors formed the opinion that Mr. Kwok does not have a valid claim against the Company and therefore it is unlikely to have any material adverse financial impact on the Group.

EMPLOYEES

As at 30 June 2009, the Group had 32 employees and 183 agents. To attract, retain and motivate its employees and agents, the Group has developed effective remuneration policies that are subject to review on regular basis. The Group's employees and agents are remunerated with competitive packages which are in line with prevailing industry practice and individual performance. Furthermore, share option and performance-based bonus scheme are also in place to recognise the outstanding employees.

Corporate Governance

The Company has complied with the code provision set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2009 except for the deviation from A.4.1 of the CG Code that none of the existing non-executive Directors is appointed for specific term. However, as the Directors are subject to the retirement by rotation provisions under the bye-laws of the Company, the Company considers that sufficient measures have been in place to ensure that the Company's corporate governance practices are no less exacting than the CG Code.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transaction by the Directors. Having made specific enquiry, all Directors confirmed that they fully complied with the Model Code throughout the review period.

CHANGES IN INFORMATION OF DIRECTORS

On 13 May 2009, Mr. Chui Chi Yun, Robert, an independent non-executive director of the Company, has been appointed as an independent non-executive director of Vertex Group Limited, a company listed on the GEM Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

On 23 June 2009, Ms. Leung Sau Fan, Sylvia retired at the conclusion of the annual general meeting of the Company and Mr. Lui Siu Tsuen, Richard was appointed as an independent non-executive director of the Company to replace Ms. Leung.

Mr. Ng Kai Man has been designated as the Chairman of the Company with effect from 1 July 2009 and has entered into a service agreement with the Company for a term of three years commencing from 1 July 2009, subject to termination by the Company or Mr. Ng by giving not less than three months' notice in writing. Pursuant to the service agreement, Mr. Ng is entitled to a monthly salary of HK$50,000 and an annual bonus having regard to the consolidated results of the Company.

With effect from 1 July 2009, the emolument of Mr. Ha Kee Choy, Eugene, an executive director of the Company, has been increased from HK$200,000 per annum to HK$360,000 per annum.

Other Information

INTERIM DIVIDEND

The Board does not recommend payment of interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: nil).

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2009, the interests and short positions of the director and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of Securities and Future Ordinance (the "SFO")) were as follows:

Long positions in the Shares and underlying Shares

Name of Director	Capacity	Number of underlying Shares	Approximate percentage of shareholding *(note 1)*
Ng Kai Man	Beneficial owner	129,224,652 *(note 2)*	59.3%

Notes:

1. The percentage shareholding is calculated on the basis of 217,882,304 Shares in issue as at 30 June 2009.

2. Being the number of Shares issuable to Mr. Ng pursuant to a convertible note issued by the Company to Mr. Ng.

Save as disclosed above, as at 30 June 2009, none of the directors or chief executive of the Company or any of their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2009, the interests and short positions of those persons (other than the directors or chief executive of the Company) 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 the SFO were as follows:

Long positions in the Shares and the underlying Shares

Name of shareholders	Capacity	Number of Shares held	Number of underlying Shares	Approximate percentage of shareholding *(note 1)*
Kwong Chi Fai, Gorman	beneficial owner	16,380,000	—	7.5%
Willie International Holdings Limited	interest of controlled corporation	—	14,444,444 *(note 2, 3)*	6.6%
Heritage International Holdings Limited	interest of controlled corporation	200,000 *(note 4)*	13,888,888 *(note 2, 4)*	6.5%
Unity Investments Holdings Limited	interest of controlled corporation	—	13,888,888 *(note 2, 5)*	6.4%
Deutsche Bank Aktiengesellschaft	person having a security interest	13,000,000	—	6.0%
Galaxy Asset Management (H.K.) Ltd	investment manger	13,000,000 *(note 6)*	—	6.0%
Lo Ming Chi Charles	beneficial owner	13,000,000	—	6.0%
Siu Kwok Chung	beneficial owner	11,000,000	—	5.0%

Notes:

1. The percentage shareholding is calculated on the basis of 217,882,304 Shares in issue as at 30 June 2009.

2. Being the number of Shares issuable pursuant to convertible notes issued by the Company on 15 May 2009, details of which were set out in note 13 to the condensed consolidated financial statements.

3. The relevant convertible note was owned by Pearl Decade Limited which was indirectly wholly controlled by Willie International Holdings Limited.

Notes: (Continued)

4. The Shares and the relevant convertible note was owned by Dollar Group Limited, a company wholly controlled by Coupeville Limited, which in turn was wholly controlled by Heritage International Holdings Limited.

5. The relevant convertible note was owned by Great Panorama International Limited which was indirectly wholly controlled by Unity Investments Holdings Limited.

6. Out of these 13,000,000 Shares, 10,000,000 Shares were held by Galaxy China Deep Value Fund and 3,000,000 Shares were held by Galaxy China Opportunities Fund, both of which were wholly controlled by Galaxy Asset Management (H.K.) Ltd.

Save as disclosed above, as at 30 June 2009, the Company has not been notified of any interests or short positions in the shares or underlying shares of the Company representing five percent or more in the issued share capital of the Company and recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTIONS

There were no outstanding share options under the share option scheme of the Company at 1 January 2009 and 30 June 2009 and no share options were granted, exercised, cancelled or lapsed during the six months ended 30 June 2009.

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

During the six months ended 30 June 2009, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF INTERIM RESULTS

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and the unaudited condensed financial information of the Group for the six months ended 30 June 2009.

By Order of the Board
Ng Kai Man
Chairman

Hong Kong, 21 September 2009