# TECHPACIFIC CAPITAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 8088

# 3RD QUARTERLY REPORT

FOR THE
NINE MONTHS
ENDED
30 SEPTEMBER
2006

**Characteristics of The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Exchange").**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**



*This report, for which the directors of Techpacific Capital Limited collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Exchange for the purpose of giving information with regard to Techpacific Capital Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## ABOUT TECHPACIFIC CAPITAL LIMITED

Techpacific Capital Limited ("Techpacific" or the "Company" and, together with its subsidiaries, the "Group") is an independent merchant banking and asset management group listed on the Hong Kong Stock Exchange's GEM board (HK GEM 8088), with offices in China, Singapore, the United Kingdom and representation in other parts of Asia.

The Group is engaged in the businesses of merchant banking, asset management, venture capital fund management and direct investment. Its subsidiary, Crosby Capital Partners Inc. ("Crosby"), which carries out the Group's merchant banking and asset management business, is quoted on London's Alternative Investment Market (CSB LN).

## MANAGEMENT DISCUSSION AND ANALYSIS

Following nine consecutive quarters of profitability, the management of Techpacific are extremely disappointed to report that the Group's loss attributable to equity holders of the Company for the three and nine months ended 30 September 2006 were US$92.5 million and US$53.4 million respectively as compared with profits of US$13.6 million and US$53.2 million respectively for the same periods last year. Management firmly believes it is not a reflection of the fundamentals and ongoing prospects of the underlying business of the Group which remain strong.

The results for the Group for the three and nine months ended 30 September 2006 are a direct reflection of the decline in the share price of JASDAQ listed IB Daiwa Corporation ("IB Daiwa") over the period given the Group's significant holding in IB Daiwa which is marked to market in accordance with International Financial Reporting Standards. The decline in the share price of IB Daiwa over the three months ended 30 September 2006 from ¥206 to ¥90 resulted in a downward unrealised mark to market adjustment of over US$100 million. The share price of IB Daiwa over the three months ended 30 September 2006 has been heavily influenced by the declines of all of the Japanese small exchange indices, oil and gas prices and small cap stocks in general over the same period (see Divisional Review below for further details).

More broadly, the Group's operations have continued to grow and expand during the quarter. The Merchant Banking division has been active, with the prospect of at least one more significant deal coming to market in the next few months, as well as progress on the two transactions that are currently in the public domain, Orchard Petroleum and Marathon Resources (see Divisional Review below for further details). Additionally, the Group continues to build its asset management activities with the marketing of a new fund to be managed from Singapore which we expect will be launched in December 2006. This will add to the breadth and diversity of our fund management business and also compliment the growth already being experienced in our Wealth Management business in Asia.

Total operating expenses (excluding finance costs and loss on financial assets at fair value through profit or loss) for the nine months ended 30 September 2006 were US$54.2 million compared with US$26.0 million for the same period last year. This increase has mainly arisen from an increase in administrative expenses (including staff costs and costs related to the Group's new wealth management business commenced during 2005) to US$49.2 million from US$21.5 million in the same period last year. These costs are closely linked to the financial performance of the business and a large proportion of them can be considered as variable costs. Additionally, the increase in administrative expenses is also attributable to the banking, legal and professional fees associated with the issuance of the convertible bond in March 2006 and the proposed migration to the Main board of the Hong Kong Stock Exchange. Other operating expenses have also increased to US$4.8 million from US$4.3 million for the same period last year. This increase is in a large part due to additional project expenses incurred within the merchant banking business. These projects are at various stages of progress, and the increase reflects the growth in the scale and number of transactions that are being undertaken.

The credit to the consolidated income statement for minority interests for the nine months ended 30 September 2006 of US$12.5 million is mainly made up of the 18.76% minority shareholders' share of the losses of Crosby and, in the Crosby Group, the 43.4% minority shareholder's share of the loss of Silk Route Petroleum Limited ("Silk Route") which reflects the change in the underlying fair value of Silk Route's investment in Indago Petroleum Limited.

## *Share Repurchase*

During the three and nine months ended 30 September 2006, the Company partially utilized its share repurchase mandate approved by shareholders at the Company's last AGM and purchased through the Stock Exchange 5,662,000 ordinary shares at prices between HK$0.43 and HK$0.455 which were then cancelled in accordance with the GEM Listing Rules.

## *Convertible Bond*

On 8 March 2006, Techpacific announced that it had sold the US$75 million zero coupon convertible bond to Goldman Sachs International, raising net proceeds of US$72.75 million for the Group after expenses. The convertible bond has a five-year term and provides bondholders with a premium on redemption in March 2011, or the ability, at their choice to either convert into newly issued shares of Techpacific at HK$0.7665 per share or exchange for existing shares of Crosby owned by Techpacific at £0.9975 per share.

As of 30 September 2006, US$55 million of the convertible bond had been converted into shares in Techpacific. This resulted in the issuance of 556,666,011 new Techpacific shares, equivalent to 16.55% of the Group's enlarged issued share capital at the date of conversion. No further Techpacific shares can be issued under the terms of the convertible bond.

The maximum amount by which the Group's stake in Crosby could now be reduced if all remaining bondholders elect to exchange for Crosby shares is 4.72%, or 11,453,287 shares, leaving the Group with a majority stake of at least 76.52% (assuming no further exercise of employee share options).

## *Divisional Review*

### Technology Venture Capital Management

Techpacific manages the Hong Kong SAR government's Applied Research Fund ("ARF") through the Softech Investment Management Company Limited ("Softech"), which is a 50:50 joint venture with Softbank China Venture Investments Limited. The ARF is a HK$750 million fund whose purpose is to provide funding support to Hong Kong-based technology ventures, and research and development projects that have commercial potential. Softech was allocated HK$250 million of the fund for management. The longer-term objective of the ARF is to increase Hong Kong's technological capability and enhance the competitiveness of local industries with the aim of promoting higher value-added economic development in Hong Kong.

### Direct Investments

In March 2006, using US$42.5 million of the proceeds from the convertible bond issue, Techpacific purchased a 35% working interest in an oil and gas exploration portfolio in Louisiana in the United States from Lodore Resources Inc. ("Lodore"), a 100% owned subsidiary of IB Daiwa. The portfolio consists of three prospects: Big Mouth Bayou, North West Kaplan and Endeavor. All three prospects are located on-shore and are operated by Pel-Tex Oil Company, LLC ("Pel-Tex"). Pel-Tex owns a 25% working interest in the three prospects and IB Daiwa owns the remaining 40%. In May 2006, Techpacific announced that drilling at the first of the prospects in the portfolio, Big Mouth Bayou, had encountered commercially exploitable oil-bearing sands at approximately 7,100 feet and more substantial gas-bearing sands (known as the "CR sands") between 14,664-16,200 feet. Pre-drilling analysis, engineering and design work are almost completed to develop this exciting field through a side track. The Endeavor prospect is also expected to commence drilling later in November 2006 and drilling at the North West Kaplan prospect is likely to commence in 2007.

In October 2006, the Group sold its interest in Upstream Asia Limited to AIM listed Raven Capital Inc. (which was simultaneously renamed Upstream Marketing and Communications Inc.) in consideration for 20,276,384 shares of Upstream Marketing and Communications Inc. (Stock Code: UPS LN) which valued its interest on completion at £2,635,930.

## Merchant Banking

*Progress at IB Daiwa*

Crosby, through two wholly owned subsidiaries, owns 102,425,000 shares of IB Daiwa as at 30 September 2006 or 24.02% of its issued share capital. These holdings remained unchanged during the three months ended 30 September 2006 and are classified as 'financial assets at fair value through profit or loss' and are, therefore, marked to market with gains and losses being recognised in the income statement. The closing share prices at 30 June 2006 and 30 September 2006 were ¥206 and ¥90 respectively. Despite this recent decline in the share price of IB Daiwa, Crosby's holding is still valued at a significant premium over the original cost of its investment in IB Daiwa. Crosby remains firmly committed to IB Daiwa and is supportive of the continued transformation of its business. Indeed, over the last quarter there has been considerable progress at IB Daiwa with both the further strengthening of the IB Daiwa management team and also in the development of its oil and gas reserves and exploration prospects at IB Daiwa's two main oil and gas subsidiaries, Lodore and Darcy Energy Holdings, Inc. ("Darcy").

In addition to the Big Mouth Bayou well, discussed above in the context of Techpacific's own direct investment, Lodore benefited from its first full quarter of revenue from its Kami well. Additionally, in early August 2006, drilling also commenced at the Plum Deep prospect on Padre Island in South Texas and which is progressing well as indicated by the operator's (Golden Gate Petroleum) recent announcement. This is part of a four well drilling programme in which Lodore has a 37.5% working interest. As mentioned above in the context of Techpacific's own direct investment, the Endeavor prospect is also expected to commence drilling later in November 2006 and drilling at the North West Kaplan prospect is likely to commence in 2007.

Darcy holds working interests in two producing oil and gas fields located in the Gulf of Mexico in shallow water off the coast of Louisiana, namely approximately 25% working interest in the East Cameron field and also approximately 20% working interest in the Main Pass field. Darcy also holds a 100% working interest in the Grand Isle field, which is an oil and gas exploration prospect in the Gulf of Mexico which it acquired in April 2006. In addition, Darcy is actively bidding for a number of other leases in the immediate vicinity of its area of expertise and knowledge.

*The Merchant Banking Deal Portfolio*

In August 2006, Crosby successfully completed a cash placement for Australian listed White Energy Company Ltd. (ASX: WEC) raising approximately A$23 million from a small group of financial investors based in Australia, Asia, Europe and North America. This placement was in addition to A$5 million Crosby raised in April 2006. As a result of arranging these placements, Crosby has earned an interest in warrants with a five year life exercisable into 2,036,296 shares of White Energy Company Ltd at an exercise price of A$0.01 each. The shares of White Energy Company Ltd., at the date of this report, at approximately A$1.00 per share. The Group also has a shareholding of 623,528 shares in White Energy Company Ltd.

In August 2006, Crosby made an unsolicited takeover offer for Marathon Resources Limited (ASX: MTN), an ASX listed uranium exploration company with prospects in South Australia, at A$0.68 per share. On the basis of the offer, Marathon Resources Limited is valued at approximately A$33 million on a fully diluted basis.

In October 2006, Crosby confirmed that it intends to make a cash takeover offer of Orchard Petroleum Limited (ASX: OPL), an ASX listed oil and gas exploration and development company with acreage in California, at A$0.68 per share. Orchard and Crosby are currently in discussions about the detailed terms and conditions for the proposed offer. On the basis of the proposed offer, Orchard Petroleum Limited is valued at approximately A$147 million on a fully diluted basis.

There also continues to be a substantial focus on bringing various other substantial, but as yet not public transactions, to the fore and the management look forward to being able to report on these transactions in due course.

### Asset Management

Crosby's asset management business, which includes fund management and wealth management, performed broadly in line with budget during the first half of the year. Assets under management remain at US$1 billion at 30 September 2006. One new fund is expected to be launched in December 2006, which will increase the size and breadth of assets under management by the Group.

## CORPORATE GOVERNANCE REPORT

The Company is committed to achieving high standards of Corporate Governance and follows the principals set out in the Code of Best Practice for GEM listed companies as set out in Appendix 15 of the Listing Rules (the "Code"). The Company has no deviations from the code provisions as set out in the Code.

## RESULTS

The board of directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Group for the nine months and three months ended 30 September 2006 (the "Review Periods"), together with the comparative unaudited figures of the corresponding periods in 2005, as follows:

| | | Unaudited Nine Months Ended 30 September | | Unaudited Three Months Ended 30 September | |
|---|---|---|---|---|---|
| | | **2006** | **2005** | **2006** | **2005** |
| | *Notes* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| **Turnover/Revenue** | *3* | 6,637 | 6,186 | 2,683 | 2,796 |
| Gain on financial assets at fair value through profit or loss | | – | 86,231 | – | 34,459 |
| Other income | *3* | 8,069 | 717 | 4,944 | 177 |
| **Total income** | | 14,706 | 93,134 | 7,627 | 37,432 |
| Loss on financial assets at fair value through profit or loss | | (24,979) | – | (105,657) | – |
| Administrative expenses | | (49,233) | (21,539) | (13,637) | (14,644) |
| Distribution expenses | | (80) | (128) | (21) | (48) |
| Other operating expenses | | (4,852) | (4,315) | (2,230) | (2,304) |
| **(Loss)/Profit from operations** | | (64,438) | 67,152 | (113,918) | 20,436 |
| Finance costs | | (2,221) | (802) | (379) | (802) |
| Gain recognised on fair value of an acquired subsidiary in excess of acquisition costs | | 959 | – | – | – |
| Share of (losses)/profits of associates | | (168) | 348 | (59) | 177 |
| Share of profit of a jointly controlled entity | | 20 | 11 | 15 | 11 |
| **(Loss)/Profit before taxation** | | (65,848) | 66,709 | (114,341) | 19,822 |
| Taxation | *4* | (133) | (115) | (36) | (115) |
| **(Loss)/Profit for the period** | | (65,981) | 66,594 | (114,377) | 19,707 |
| **Attributable to:** | | | | | |
| Equity holders of the Company | | (53,447) | 53,181 | (92,539) | 13,594 |
| Minority interests | | (12,534) | 13,413 | (21,838) | 6,113 |
| (Loss)/Profit for the period | | (65,981) | 66,594 | (114,377) | 19,707 |
| **(Loss)/Earnings per share** | | *US cents* | *US cents* | *US cents* | *US cents* |
| – Basic | *5* | (1.74) | 1.90 | (2.75) | 0.49 |

# NOTES TO THE UNAUDITED CONSOLIDATED RESULTS

***1. Basis of presentation***

The unaudited consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market. The unaudited consolidated financial statements have been prepared under historical cost convention except for revaluation of certain financial instruments which are measured at fair value. The measurement bases are described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the unaudited consolidated financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

These consolidated financial statements for the nine months ended 30 September 2006 are unaudited but have been reviewed by the audit committee of the Company.

***2. Principal accounting policies***

The principal accounting policies adopted in the unaudited consolidated financial statements are consistent with those followed in the annual financial statements for the year ended 31 December 2005, except for the following additional accounting policies only applicable to the nine months ended 30 September 2006:

*(a) Convertible bond*

Convertible bond is regarded as a compound instrument, consisting of a liability component and an equity component, or in the case that the conversion options are not settled by the exchange of a fixed amount for fixed number of equity instrument of the issuer (i.e. the Company), the issuer recognises the compound financial instrument in the form of financial liability with embedded derivatives. Derivatives embedded in a financial instrument are treated as separated derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. At the date of issue, both the conversion option derivative and liability component are recognised at fair value and the difference between the proceeds of the bond issue and the total fair value assigned to the financial liability with embedded derivatives, representing the embedded call option for the bond holder to convert the bond into equity, is included in equity (convertible bond reserve).

In subsequent periods, the liability component is carried at amortised cost using the effective interest method. Any notional non-cash interest charged on the liability component, calculated by applying the original effective interest rate, is added to the carrying amount of the liability component. The conversion option derivative is subsequently measured at fair value at each balance sheet date. The equity component will remain in convertible bond reserve until the embedded call option is exercised (in which case the balance stated in convertible bond reserve will be transferred to other reserves). Where the option remains unexercised at the expiry date, the balance stated in convertible bond reserve will be released to retained profits. No gain or loss is recognised in the income statement upon conversion or expiration of the option.

Transaction costs that relate to the issue of the bond are allocated amongst the liability and equity components and the conversion option derivative in proportion to the allocation of the proceeds. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the bond using the effective interest method. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the conversion option derivative are expensed as incurred.

*(b) Derivative financial instrument*

Derivative financial instrument is initially measured at fair value on the contract date, and is remeasured to fair value at subsequent reporting dates.

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the host contracts are not measured at fair value through the income statement.

***3. Turnover/Revenue and other income***

Turnover comprises fees for corporate finance and other advisory services, fees from the placement of shares, fund management fees and wealth management services fees.

Other income mainly comprises interest income, profits on disposal of investments and bad debt recoveries.

### 4. Taxation

| | Unaudited nine months ended 30 September | | Unaudited three months ended 30 September | |
|---|---|---|---|---|
| | **2006** *US$'000* | **2005** *US$'000* | **2006** *US$'000* | **2005** *US$'000* |
| Current tax | | | | |
| – Hong Kong tax | – | 6 | – | 6 |
| – Overseas tax | 133 | 109 | 36 | 109 |
| | 133 | 115 | 36 | 115 |

Hong Kong and overseas income tax for the three months and nine months ended 30 September 2006 have been calculated at the rates prevailing in the relevant jurisdictions.

No recognition of potential deferred tax assets relating to tax losses of the Group has been made as the recoverability of the potential tax assets is uncertain.

### 5. (Loss)/Earnings per share

| | Unaudited nine months ended 30 September | | Unaudited three months ended 30 September | |
|---|---|---|---|---|
| | **2006** *US$'000* | **2005** *US$'000* | **2006** *US$'000* | **2005** *US$'000* |
| (Loss)/Profit attributable to equity holders of the Company | (53,447 ) | 53,181 | (92,539 ) | 13,594 |

| | Unaudited nine months ended 30 September | | Unaudited three months ended 30 September | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| Weighted average number of shares for calculating basic (loss)/earnings per share | 3,075,980,694 | 2,796,566,256 | 3,363,106,082 | 2,799,495,723 |

No diluted earnings per share is shown, as the outstanding share options were anti-dilutive.

### 6. Movement in reserves

| | Share premium US$'000 | Capital reserve US$'000 | Capital redemption reserve US$'000 | Employee share-based compensation reserve US$'000 | Investment revaluation reserve US$'000 | Foreign exchange reserve US$'000 | Convertible bond reserve US$'000 | (Accumulated losses)/ Retained profits US$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2006 | 52,853 | 9,241 | 11 | 778 | 36 | (188 ) | – | 62,129 |
| Surplus on revaluation | – | – | – | – | 134 | – | – | – |
| Exchange differences on consolidation | – | – | – | – | – | 113 | – | – |
| Net income directly in equity | – | – | – | – | 134 | 113 | – | – |
| Loss for the period | – | – | – | – | – | – | – | (53,447 ) |
| Total recognised income and expenses for the period | – | – | – | – | 134 | 113 | – | (53,447 ) |
| Issue of new shares upon exercise of share options | 29 | – | – | (6 ) | – | – | – | – |
| Issue of convertible bond | – | – | – | – | – | – | 4,793 | – |
| Issue of new shares upon conversion on convertible bond | 54,443 | (4,369 ) | – | – | – | – | (4,793 ) | – |
| Employee share-based compensation | – | – | – | 2,948 | – | – | – | – |
| Effect on exercising share options of a subsidiary | – | – | – | (313 ) | – | – | – | – |
| Effect on repurchase of own shares | (318 ) | – | 6 | – | – | – | – | (6 ) |
| At 30 September 2006 (Unaudited) | 107,007 | 4,872 | 17 | 3,407 | 170 | (75 ) | – | 8,676 |
| At 1 January 2005 | 52,817 | 9,228 | 11 | – | 165 | (280 ) | – | (21,827 ) |
| Deficit on revaluation | – | – | – | – | (108 ) | – | – | – |
| Exchange differences on consolidation | – | – | – | – | – | 92 | – | – |
| Net (expenses)/income directly in equity | – | – | – | – | (108 ) | 92 | – | – |
| Profit for the period | – | – | – | – | – | – | – | 53,181 |
| Total recognised income and expenses for the period | – | – | – | – | (108 ) | 92 | – | 53,181 |
| Issue of new shares upon exercise of share options | 36 | – | – | (10 ) | – | – | – | – |
| Employee share-based compensation | – | – | – | 717 | – | – | – | – |
| Effect on exercising share options of a subsidiary | – | – | – | (131 ) | – | – | – | – |
| At 30 September 2005 (unaudited) | 52,853 | 9,228 | 11 | 576 | 57 | (188 ) | – | 31,354 |

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2006 (nine months ended 30 September 2005: Nil).

## DISCLOSURE OF INTERESTS

**(a) Directors**

As at 30 September 2006, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Exchange pursuant to Rule 5.46 to Rule 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

***(i) Interests in the ordinary shares of the Company***

| Name of Directors | Personal interest | Family interest | Corporate interest | Aggregate long position in ordinary shares of the Company | Percentage which the aggregate long position in ordinary shares represents to the total ordinary shares of the Company in issue |
|---|---|---|---|---|---|
| | | | | | % |
| Ilyas Tariq Khan *(Notes 1 & 2)* | 79,994,076 | – | 413,091,794 | 493,085,870 | 16.07 |
| Johnny Chan Kok Chung *(Note 3)* | 174,212,205 | 16,097,387 | – | 190,309,592 | 6.20 |
| Joseph Tong Tze Kay | 3,000,000 | – | – | 3,000,000 | 0.10 |
| Peter McIntyre Koenig | 1,500,000 | – | – | 1,500,000 | 0.05 |

*Note 1:* TW Indus Limited held 188,208,147 ordinary shares. TW Indus Limited was beneficially wholly-owned by Ilyas Tariq Khan.

*Note 2:* ECK & Partners Limited held 224,883,647 ordinary shares. ECK & Partners Limited was beneficially owned as 88.86% by Ilyas Tariq Khan. Since Ilyas Tariq Khan is entitled to exercise more than one third of the voting power at general meetings of ECK & Partners Limited, he is deemed to be interested in 224,883,647 ordinary shares owned by ECK & Partners Limited.

*Note 3:* Yuda Udomritthiruj held 16,097,387 ordinary shares. Yuda Udomritthiruj, an employee of a subsidiary of the Company, is the wife of Johnny Chan Kok Chung and, accordingly, he is deemed to have interests in her shares.

### *(ii) Interests in the underlying shares of the Company*

The interests in the underlying shares of the Company arise from unlisted share options (physically settled equity derivatives) granted to the Directors of the Company under the Company's Share Option Scheme, details of which are provided below:

| Name of Directors | Date of grant | Subscription price | Aggregate long position in underlying shares of the Company | Percentage which the aggregate long position in underlying shares of the Company represents to the total ordinary share capital of the Company in issue<br>% |
|---|---|---|---|---|
| Ilyas Tariq Khan | 26 April 2006 | HK$0.770 | 60,000,000 | 1.96 |
| Johnny Chan Kok Chung | 26 April 2006 | HK$0.770 | 60,000,000 | 1.96 |
| Ahmad S. Al-Khaled | 24 March 2006 | HK$0.770 | 5,000,000 | 0.16 |
| Daniel Yen Tzu Chen | 14 May 2003 | HK$0.035 | 2,000,000 | |
| | 24 March 2006 | HK$0.770 | 5,000,000 | |
| | | | 7,000,000 | 0.23 |
| Peter McIntyre Koenig | 20 August 2004 | HK$0.035 | 2,000,000 | |
| | 24 March 2006 | HK$0.770 | 5,000,000 | |
| | | | 7,000,000 | 0.23 |
| Joseph Tong Tze Kay | 20 August 2004 | HK$0.035 | 2,000,000 | |
| | 24 March 2006 | HK$0.770 | 5,000,000 | |
| | | | 7,000,000 | 0.23 |

### *(iii) Short Positions*

None of the Directors held short positions in the shares and underlying shares of the Company or any Associated Corporation.

### *(iv) Interests in the shares of an Associated Corporation*

| Name of Directors | Associated corporation | Personal interest | Corporate interest | Aggregate long position in shares of the Associate | Percentage which the aggregate long position in shares of the Associate represents to the issued share capital of the Associate<br>% |
|---|---|---|---|---|---|
| Ilyas Tariq Khan *(Note 1)* | Crosby Capital Partners (Hong Kong) Limited | 1 | 110,001 | 110,002 | 0.04 |
| Johnny Chan Kok Chung | Crosby Capital Partners (Hong Kong) Limited | 30,000 | – | 30,000 | 0.01 |

*Note 1:* TW Indus Limited held 110,001 shares in Crosby Capital Partners (Hong Kong) Limited. TW Indus Limited is beneficially wholly-owned by Ilyas Tariq Khan.

Save as disclosed herein, as at 30 September 2006, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were 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 Rule 5.46 to Rule 5.67 of the GEM Listing Rules relating to securities transactions by Directors.

**(b) Substantial Shareholders and Other Persons**

So far as is known to any Director or the chief executive of the Company, as at 30 September 2006, the following persons, other than the Directors of the Company, had interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

***(i) Interests in the ordinary shares and underlying shares of the Company***

| Name | Number or approximate attributable number of ordinary shares | Aggregate long position in underlying shares of the Company | Approximate percentage or approximate attributable percentage holding of ordinary shares currently in issue and/or percentage which the aggregate long position in underlying shares of the Company represents to the total ordinary share capital of the Company in issue |
|---|---|---|---|
| Deutsche Bank Aktiengesellschaft | 1,278,000 | 412,422,007 | 13.49% |
| PMA Capital Management Limited *(Note 1)* | 372,948,005 | – | 12.16% |
| TBV Holdings Limited *(Note 2)* | 302,055,000 | – | 9.85% |
| PMA Prospect Fund *(Note 1)* | 248,489,520 | – | 8.10% |
| ECK & Partners Limited *(Note 3)* | 224,883,647 | – | 7.33% |
| TW Indus Limited *(Note 4)* | 188,208,147 | – | 6.14% |

*Note 1:* PMA Capital Management Limited is the investment advisor of PMA Prospect Fund, both of which are Independent Third Parties. The interest of PMA Prospect Fund in 248,489,520 ordinary shares is included in the interest of PMA Capital Management Limited in 372,948,005 ordinary shares. On 20 October 2006, PMA Prospect Fund increased its interest to 281,295,520.

*Note 2:* TBV Holdings Limited is a company wholly-owned by the Kuwait Fund for Arab Economic Development, a development finance agency owned by the government of Kuwait.

*Note 3:* Since Ilyas Tariq Khan is entitled to exercise more than one third of the voting power at general meetings of ECK & Partners Limited, ECK & Partners Limited interest in 224,883,647 ordinary shares is duplicated in the 493,085,870 ordinary shares in which Ilyas Tariq Khan is interested as a Director.

*Note 4:* TW Indus Limited held a direct interest in 188,208,147 ordinary shares. Ilyas Tariq Khan was beneficially interested in 100% of the share capital of TW Indus Limited and, therefore, Ilyas Tariq Khan was also interested in these 188,208,147 ordinary shares which are duplicated within the 493,085,870 ordinary shares in which Ilyas Tariq Khan was interested as a Director.

### *(ii) Interests in the non-voting convertible deferred shares of the Company*

| **Name** | **Number or approximate attributable number of non-voting convertible deferred shares** | **Percentage which the aggregate long position in non-voting convertible deferred shares represents to the total non-voting convertible deferred shares currently in issue** |
|---|---:|---:|
| Simon Fry *(Note 1)* | 292,500,000 | 100% |

*Note 1:* Simon Fry is the Chief Executive Officer of Crosby Capital Partners Inc., which is a 81.24% subsidiary of the Company as at 30 September 2006. Further to the Company's announcement dated 31 March 2004, 292,500,000 non-voting convertible Deferred Shares were allotted to Simon Fry. Simon Fry has also held a direct interest in 110,186,587 ordinary shares. Simon Fry was also granted 60 million options to subscribe for ordinary shares in the Company at an exercise price of HK$0.77 per share on 26 April 2006.

### *(iii) Short Positions*

No person held short positions in the Shares and Underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Save as disclosed above, as at 30 September 2006, the Directors of the Company were not aware of any other person who had an interest or short position in the Shares and Underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Save as disclosed above, as at 30 September 2006, no other person had interests which were recorded in the register required to be kept under section 336 of the SFO.

**(c) Share Options**

Pursuant to the Company's Share Option Scheme, a duly authorised committee of the board of Directors of the Company may, at its discretion, grant options to eligible employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the higher of (i) the closing price of the Shares of the Company on the Exchange on the date of grant of the particular option or (ii) the average of the closing prices of the Shares of the Company for the five trading days immediately preceding the date of the grant of the options or (iii) the nominal value of the shares.

Share options granted under the Share Option Scheme are exercisable as follows:

(a) the first thirty percent of the options between the first and tenth anniversary of the date of grant;

(b) the next thirty percent of the options between the second and tenth anniversary of the date of grant; and

(c) the remaining options between the third and tenth anniversary of the date of grant.

The following table sets out information relating to the Share Option Scheme:

| Date of options grant | Options granted | Options exercise price | Options lapsed since grant | Options outstanding | Options exercisable as at 30 September 2006 |
|---|---|---|---|---|---|
| 27 March 2002 | 248,244,700 | HK$0.0704 | 247,944,700 | 300,000 | 300,000 |
| 18 March 2003 | 54,000,000 | HK$0.0350 | 54,000,000 | – | – |
| 14 May 2003 | 15,000,000 | HK$0.0350 | 10,000,000 | 2,000,000 | 2,000,000 |
| 18 June 2003 | 26,064,000 | HK$0.0350 | 26,064,000 | – | – |
| 11 July 2003 | 312,000,000 | HK$0.0350 | 312,000,000 | – | – |
| 1 December 2003 | 21,000,000 | HK$0.0350 | 21,000,000 | – | – |
| 20 August 2004 | 15,000,000 | HK$0.0350 | – | 4,000,000 | – |
| 24 March 2006 | 40,000,000 | HK$0.7700 | – | 40,000,000 | – |
| 26 April 2006 | 180,000,000 | HK$0.7700 | – | 180,000,000 | – |
| | 911,308,700 | | 671,008,700 (1) | 226,300,000 | 2,300,000 |

*Note 1:* Includes 518,564,000 of share options that have lapsed and are not available for re-use.

6,500,000 options granted under the Share Option Scheme had been exercised during the nine months ended 30 September 2006.

**(d) Competing Interests**

So far as the Directors are aware, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates have any interests in a business which competes or may compete with the business of the Group.

## AUDIT COMMITTEE

The Company established an audit committee on 31 March 2000 with the written terms of reference in compliance with the GEM Listing Rules. The audit committee comprises three independent non-executive directors, Messrs. Joseph Tong Tze Kay, Daniel Yen Tzu Chen and Peter McIntyre Koenig. The primary duties of the audit committee are to review and supervise the Company's financial reporting process and internal control systems.

The audit committee meets at least quarterly with the most recent meeting held on 7 November 2006. The unaudited financial statements for the nine months ended 30 September 2006 have been reviewed by the audit committee.

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

During the three months and nine months ended 30 September 2006, the Company purchased through the Stock Exchange 5,662,000 ordinary shares at prices between HK$0.43 and HK$0.455 which were then cancelled, but did not sell or redeem any of the Company's listed securities.

By Order of the Board
**Ilyas Tariq Khan**
*Chairman*

Hong Kong, 9 November 2006

*As at the date of this report, the Directors of the Company are*

*Executive Director: Johnny Chan Kok Chung*

*Non-Executive Directors: Ilyas Tariq Khan, Ahmad S. Al-Khaled*

*Independent Non-Executive Directors: Daniel Yen Tzu Chen, Peter McIntyre Koenig and Joseph Tong Tze Kay*