

# CROSBY CAPITAL LIMITED

Stock Code: 8088

## 3<sup>rd</sup> Quarterly Report 2008

For the nine months ended 30 September

## **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.**

*The Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors of Crosby 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 Crosby 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 CROSBY CAPITAL LIMITED

Crosby Capital Limited (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 Hong Kong, Singapore, the United Kingdom and representation in other parts of Asia.

The Group is engaged in the businesses of merchant banking, asset management and direct investment. Its subsidiary, Crosby Asset Management Inc. ("CAM"), which carries out the Group's asset management business, is quoted on the AIM Market of the London Stock Exchange (CSB LN).

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group reports a reduced loss attributable to shareholders for the nine months ended 30 September 2008 of US\$55.5 million when compared to a loss of US\$61.5 million for the same period last year. Although these financial results are clearly very disappointing they do need to be taken in the context of the extreme market conditions that we have been facing particularly in recent months.

The loss for the nine months ended 30 September 2008 is principally due to two factors that were largely already reflected in the Group's interim results for the six months ended 30 June 2008: (i) the loss of US\$26.8 million of losses on financial assets at fair value through profit and loss which US\$17.8 million is in respect of JASDAQ-listed IB Daiwa Corporation ("IB Daiwa", 3587 JP); and (ii) US\$16.4 million of restructuring costs and charges due to the impairment of intangibles related to the Forsyth fund-of-funds range. As previously highlighted, these factors should have reduced influence on the income statement going forward. The restructuring of the Forsyth fund-of-funds business is now almost completed and, during the nine months ended 30 September 2008, CAM has sold 65,550,000 shares of IB Daiwa realizing proceeds of US\$12.1 million. As at the date of this report, CAM owns 21,150,000 IB Daiwa shares representing 4.96% of its issued share capital. Consequently, the impact of changes to the price of this investment on future income statements of the Group will now be limited.

Group turnover increased by 36% to US\$29.7 million for the nine months ended 30 September 2008 when compared to US\$21.8 million for the same period last year. This increase was in part due to the fact that the Forsyth fund-of-funds business, which made up US\$11.0 million of the turnover for the nine months ended 30 September 2008 is not in the comparative figures for the same period last year as the investment management contracts were only taken on at the beginning of the fourth quarter of 2007. Commission income from Crosby Wealth Management ("CWM") decreased to US\$6.6 million for the nine months ended 30 September 2008 when compared to US\$19.7 million for the same period last year due to declines in the assets under management and lower margins that are more fully described below. Turnover for the nine months ended 30 September 2008 also included US\$10.7 million of fees on merchant banking transactions which, although increased significantly when compared to US\$0.4 million for the same period last year, was of a non-recurring nature and when transaction expenses and fees paid to third parties in respect of these transactions are also taken into consideration the net impact of this increase was significantly lower.

Total operating expenses for the Group (excluding cost of sales, loss on financial assets, impairment against intangibles, impairment against exploration prospects, restructuring costs and finance costs) for the nine months ended 30 September 2008 were US\$45.4 million compared with US\$46.9 million for the same period last year. The nine months under review therefore compares favourably with the same period in 2007 as our current result includes US\$7.7 million of operating expenses related to the Forsyth fund-of-funds business that were not included in the same period last year. On a "like for like" basis therefore overall expenses showed a significant fall of approximately 20%. Despite this, our management has been taking action to significantly reduce the fixed cost base of the Group further. We should start to see the benefit from these cost reductions in the income statement from the fourth quarter of 2008.

## **CWM**

As announced by the Company on 22 October 2008, at 30 September 2008 the unaudited provisional and estimated assets under management of CWM was approximately US\$500 million, a decline of approximately 64% from US\$1.4 billion as of 30 June 2008. In view of the continued and heightened volatility of the financial markets and the related changes in investors' sentiment, shareholders should be aware that there will be further declines in the assets under management and margins at CWM over the fourth quarter. At 31 October 2008 assets under management stood at US\$222 million, a decline of 56% from the figure as of 30 September 2008. The decline has largely been caused by certain clients restructuring the custody of their portfolios to minimize the counterparty risk they had with other institutions and the diminution in value of certain structured investment products in today's extreme market conditions.

The decrease in assets under management at CWM and contraction in margins (largely due to a decline in trading volume) will have an adverse impact on the ongoing revenue and profitability (or losses) of the Group going forward. During the third quarter, CWM's flexible cost base has limited the financial impact; however, going forward the profitability of this business depends on the investment appetite of its existing client base and the ability to gain new clients in challenging market conditions that are likely to continue for the medium term.

## **Forsyth**

During the third quarter, driven mainly by a single large redemption order that led to the closure of the long and hybrid fund ranges, assets under management declined by US\$323 million to US\$280 million. It is anticipated that there will be a further fall in assets under management during the fourth quarter of 2008 – the completion of the fund closure programme will result in a further US\$123 million of redemptions and there is a backlog of approximately US\$45 million of redemption orders for the Alternative Income Hedge Fund of Funds due to redemptions being suspended whilst the fund was restructured.

In September 2008, as part of the restructuring and refocusing of the product range and cost base, the fund research and ratings service was sold to Old Broad Street Research ("OBSR") and Crosby Forsyth exited the fund advisory business. In both cases, the businesses were operating at close to break-even and there were no exit costs. Consequently, the moves did not have an impact on the financial position of CAM.

The fund research and ratings business was sold for a nominal initial consideration with a three year earn-out mechanism. Any cash received under the earn-out will be applied to general working capital for the development of CAM. As part of the deal, CAM will receive privileged access to OBSR's research database for three years.

The restructuring and refocusing of the Crosby Forsyth business around a multi-asset class fund of funds and a multi-strategy fund of hedge funds is scheduled for completion during the fourth quarter of 2008.

## **Apollo**

During the quarter ended 30 September 2008, CAM entered into a joint-venture with a team of award-winning investment managers and sales professionals to launch a pure multi-asset management company – Apollo Multi Asset Management LLP ("Apollo"). The joint-venture is scheduled to launch two products – a cautious growth fund and a balanced growth fund – in late November 2008.

## **Crosby Active Opportunities Fund**

The Crosby Active Opportunities Fund ("CAOF") saw a net return for the nine months ended 30 September 2008 of approximately -11.5%, which gives a net return of +8% since inception. Assets under management have declined to approximately US\$55 million due to both small redemptions and the reduction in net asset value due to the negative performance during the year-to-date.

## Orchard Petroleum

Despite some mechanical problems and a delay in securing suitable drilling rigs, progress at Orchard Petroleum continues to be positive.

As at 31 October 2008, Orchard was producing from approximately 40 wells. A further ten wells have been drilled and are due on stream within a few weeks time. It is therefore likely that there will be 50 wells in production by the end of the year and that between 60 to 75 wells will be on production on the South Belridge Field by 30 June 2009.

A full reserve audit will be commissioned once the current drilling programme has been completed. Since all the wells that have been drilled this year have been successful and have come on stream, we continue to expect a substantial upgrade in reserves from the previously announced figures as at November 2007 (proven and probable reserves of 16 million barrels of oil equivalent and possible reserves of 68 million barrels of oil equivalent).

On a consolidated, fully diluted basis, CAM's direct shareholding in ESK (the corporate entity that made the original acquisition of Orchard Petroleum) is 5%. However, after the repayment of principal to preference shareholders, this will rise to an effective economic interest of between 9% and 10%. Separately, CAOF, managed by CAM, has a shareholding of approximately 9%.

## ADM Loan

On 23 June 2008, Asia Special Situations GJP1 Limited ("ASSGJP1"), a wholly owned subsidiary of IB Daiwa Corporation ("IB Daiwa"), entered into a loan agreement with ADM Galleus Fund Limited ("ADM"), an investment fund managed by Asia Debt Management Hong Kong Limited, on 19 June 2008 pursuant to which ADM made a loan of US\$44 million to ASSGJP1 for discharging its inter-company obligations owing to IB Daiwa (the "ADM Loan"). IB Daiwa in turn, used the proceeds from the ADM Loan received from ASSGJP1 to repay and discharge all its liabilities owed to Coniston, a wholly owned subsidiary of the Company, under the Indemnity Agreement dated 22 June 2007 (amounting to US\$15 million) and the Exchangeable Loan Agreement dated 4 March 2008 (amounting to US\$9,815,000) as well as liabilities owed to other financiers. Simultaneously, with the settlement of IB Daiwa's liabilities to Coniston, Coniston participated in the ADM Loan in a sum of US\$9,815,000 pursuant to a participation agreement that Coniston entered into with ADM.

Subsequent to 30 September 2008, certain principal terms of the ADM Loan have been amended in order to rectify the security coverage ratio, which has fallen below the required level under the loan agreement as a result of the drop in the price of the shares of Leed Petroleum PLC ("Leed", Stock Code: LDP LN) due to the turmoil in the global capital markets since September this year. The key amended principal terms of the ADM Loan relevant to Coniston's participation are summarized below:

- secured by 104,615,384 shares of Leed owned by IB Daiwa; 21,333,333 shares of Adavale Resources Limited (Stock Code: ADD AU) owned by IB Daiwa; all the shares of Lodore US Holdings Inc. and its subsidiaries (all wholly-owned subsidiaries of IB Daiwa) and US\$7,500,000 of cash;
- guaranteed by IB Daiwa;
- bears interest per annum at a premium of 5% to 12-month LIBOR;
- total outstanding principal plus accrued interest, premium and fees attributable to Coniston have increased from about US\$10.6 million as of 30 June 2008 to about US\$12.0 million as of the date of this report;
- includes a profit share constituent the economic effect of which is that the Group benefits from 65% of the profit from the sale of the Leed shares, net of applicable brokerage fees and taxes, on per share basis, in excess of the profit sharing threshold price, which was initially set at 38 pence per share but can be reset downward to the 30-day weighted average market price of the Leed shares immediately preceding but excluding the last day of each monthly interest period occurring more than 3 months after 20 June 2008 (once the ADM Loan has been fully repaid the profit sharing obligations of the borrower cease); and
- repayable from an orderly sale of IB Daiwa's shares in Leed, or from the cash collateral or by way of exchanging the loan into shares of Leed at the profit sharing threshold price, with a final maturity date of 20 June 2009.

## 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 2008 (the "Review Periods"), together with the comparative unaudited figures of the corresponding periods in 2007, as follows:

	Notes	Unaudited nine months ended 30 September		Unaudited three months ended 30 September	
		2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
<b>Turnover/Revenue</b>	3	29,738	21,811	12,119	9,331
Cost of sales		(9,905)	(307)	(5,218)	(102)
<b>Gross profit</b>		19,833	21,504	6,901	9,229
Loss on financial assets at fair value through profit or loss		(26,796)	(17,859)	(7,650)	(14,784)
Gain on financial liabilities at fair value through profit or loss		398	1,147	38	2,040
Impairment of interest in oil and gas exploration prospects		–	(15,000)	–	–
Other income	3	3,149	2,107	1,018	1,077
Administrative expenses		(37,449)	(41,482)	(10,772)	(14,584)
Distribution expenses		(14)	(136)	(11)	(9)
Restructuring expenses	4	(7,437)	–	(3,204)	–
Other operating expenses		(7,949)	(5,323)	(5,210)	(922)
Amortisation of intangible assets		(314)	–	–	–
Impairment of intangible assets		(8,979)	–	–	–
<b>Loss from operations</b>		(65,558)	(55,042)	(18,890)	(17,953)
Finance costs		(1,256)	(925)	(373)	(317)
Share of profits/(losses) of associates		42	(177)	(27)	(97)
Share of profit of a jointly controlled entity		98	47	32	17
<b>Loss before taxation</b>		(66,674)	(56,097)	(19,258)	(18,350)
Taxation	5	(69)	(1,626)	224	(689)
<b>Loss for the period</b>		(66,743)	(57,723)	(19,034)	(19,039)
<b>Attributable to:</b>					
Equity holders of the Company		(55,498)	(61,452)	(15,502)	(18,507)
Minority interests		(11,245)	3,729	(3,532)	(532)
<b>Loss for the period</b>		(66,743)	(57,723)	(19,034)	(19,039)
Dividend		–	–	–	–
<b>Loss per share attributable to equity holders of the Company</b>	6	US cents	US cents	US cents	US cents
– Basic		(24.96)	(1.83)	(4.65)	(0.55)
– Diluted		N/A	N/A	N/A	N/A

# NOTES TO THE UNAUDITED CONSOLIDATED RESULTS

## **1. Basis of presentation**

The Company acts as the holding company of the Group. The Group is principally engaged in the business of merchant banking, asset management, venture capital fund management and direct investment. The Company is incorporated in the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and, its principal place of business is 2701, Citibank Tower, 3 Garden Road, Central, Hong Kong.

The Board has adopted International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. The unaudited consolidated financial statements comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The unaudited consolidated financial statements have been prepared under historical cost basis except for certain financial instruments which are measured at fair value.

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 and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the unaudited consolidated financial statements, are consistent with those set out in the Company's annual audited consolidated financial statements for the year ended 31 December 2007.

These consolidated financial statements for the nine months ended 30 September 2008 are unaudited but have been reviewed by the audit committee of the Company.

## **2. Principal accounting policies**

The principal accounting policies adopted to prepare the unaudited consolidated financial statements are consistent with those adopted to prepare the Company's annual audited consolidated financial statements for the year ended 31 December 2007.

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

Turnover comprises fees for corporate finance and other advisory services, fund management fee and wealth management services fee.

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

## **4. Restructuring expenses**

Restructuring expenses represents redundancy costs, provision for the discounted net present value of the future operating lease rental payments under operating leases for vacant office premises, in so far as they are expected to exceed future anticipated rentals if the premises is sub-let, provisions against the net carrying value of furniture and fixtures in those office premises and provisions against website, software and system and related development costs that are not be utilized by the Group following the restructuring.

## **5. Taxation**

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong for the nine months and three months ended 30 September 2008. Taxes on profits assessable elsewhere 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.

## 6. Loss per share attributable to equity holders of the Company

### (a) Basic loss per share

The calculation of the basic loss per share for the nine months ended 30 September 2008 is based on the loss attributable to equity holders of the Company of US\$55,498,000 (2007: US\$61,452,000) and the weighted average number of ordinary shares of 222,322,472 (2007: 3,359,291,512) in issue during the nine months ended 30 September 2008.

The calculation of the basic loss per share for the three months ended 30 September 2008 is based on the loss attributable to equity holders of the Company of US\$15,502,000 (2007: US\$18,507,000) and the weighted average number of ordinary shares of 333,663,312 (2007: 3,360,098,647) in issue during the three months ended 30 September 2008.

### (b) Diluted loss per share

No diluted loss per share is shown for the nine months and three months ended 30 September 2008 and 30 September 2007, as the outstanding share options were anti-dilutive.

## 7. 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	(Accumulated losses)/ Retained profits US\$'000
At 1 January 2008	106,895	4,872	20	9,285	312	100	(63,231)
Deficit on revaluation	-	-	-	-	(343)	-	-
Exchange differences on consolidation	-	-	-	-	-	(91)	-
Net expenses directly in equity	-	-	-	-	(343)	(91)	-
Loss for the period	-	-	-	-	-	-	(55,498)
Total recognised income and expenses for the period	-	-	-	-	(343)	(91)	(55,498)
Share repurchase	(440)	-	46	-	-	-	(46)
Employee share-based compensation	-	-	-	3,063	-	-	-
Effect on exercising share options of a subsidiary	-	-	-	(21)	-	-	-
Lapse of share options	-	-	-	(653)	-	-	538
<b>At 30 September 2008 (Unaudited)</b>	<b>106,455</b>	<b>4,872</b>	<b>66</b>	<b>11,674</b>	<b>(31)</b>	<b>9</b>	<b>(118,237)</b>
At 1 January 2007	106,875	4,872	20	5,075	173	30	1,420
Surplus on revaluation	-	-	-	-	109	-	-
Exchange differences on consolidation	-	-	-	-	-	305	-
Net income directly in equity	-	-	-	-	109	305	-
Loss for the period	-	-	-	-	-	-	(61,452)
Total recognised income and expenses for the period	-	-	-	-	109	305	(61,452)
Issue of new shares upon exercise of share options	20	-	-	(4)	-	-	-
Employee share-based compensation	-	-	-	3,347	-	-	-
Effect on exercising share options of a subsidiary	-	-	-	(62)	-	-	-
At 30 September 2007 (unaudited)	<b>106,895</b>	<b>4,872</b>	<b>20</b>	<b>8,366</b>	<b>282</b>	<b>335</b>	<b>(60,032)</b>

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2008 (nine months ended 30 September 2007: Nil).

## DISCLOSURE OF INTERESTS

### (a) Directors

As at 30 September 2008, the interests or short positions of the Directors and 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 provisions 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, 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)	8,249,407	-	41,828,278	50,077,685	16.56
Johnny Chan Kok Chung (Note 3)	15,155,320	1,609,738	-	16,765,058	5.54
Simon Jeremy Fry	11,018,658	-	-	11,018,658	3.64
Joseph Tong Tze Kay	500,000	-	-	500,000	0.17
Daniel Yen Tzu Chen	200,000	-	-	200,000	0.07
Peter McIntyre Koenig	350,000	-	-	350,000	0.12

*Note 1:* TW Indus Limited held 19,339,914 ordinary shares. TW Indus Limited was beneficially wholly-owned by Ilyas Tariq Khan.

*Note 2:* ECK & Partners Limited held 22,488,364 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 22,488,364 ordinary shares owned by ECK & Partners Limited.

*Note 3:* Yuda Udomritthiruj held 1,609,738 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 %
Ilyas Tariq Khan	26 April 2006	HK\$7.70	6,000,000	2.81
	11 February 2008	HK\$1.80	2,500,000	
			8,500,000	
Johnny Chan Kok Chung	26 April 2006	HK\$7.70	6,000,000	2.98
	11 February 2008	HK\$1.80	3,000,000	
			9,000,000	
Simon Jeremy Fry	26 April 2006	HK\$7.70	6,000,000	2.98
	11 February 2008	HK\$1.80	3,000,000	
			9,000,000	
Ahmad S. Al-Khaled	24 March 2006	HK\$7.70	500,000	0.41
	29 January 2007	HK\$3.65	250,000	
	11 February 2008	HK\$1.80	500,000	
			1,250,000	
Daniel Yen Tzu Chen	24 March 2006	HK\$7.70	500,000	0.41
	29 January 2007	HK\$3.65	250,000	
	11 February 2008	HK\$1.80	500,000	
			1,250,000	
Peter McIntyre Koenig	24 March 2006	HK\$7.70	500,000	0.41
	29 January 2007	HK\$3.65	250,000	
	11 February 2008	HK\$1.80	500,000	
			1,250,000	
Joseph Tong Tze Kay	24 March 2006	HK\$7.70	500,000	0.41
	29 January 2007	HK\$3.65	250,000	
	11 February 2008	HK\$1.80	500,000	
			1,250,000	

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

<b>Name</b>	<b>Number or approximate attributable number of non-voting convertible deferred shares</b>	<b>Percentage which the aggregate long position in non-voting convertible deferred shares represents to the total non-voting convertible deferred shares currently in issue</b>
Simon Jeremy Fry	29,250,000	100%

**(iv) Short Positions**

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

**(v) Interests in the shares of an Associated Corporation**

<b>Name of Directors</b>	<b>Associated corporation</b>	<b>Personal interest</b>	<b>Corporate interest</b>	<b>Aggregate long position in shares of the Associate corporation</b>	<b>Percentage which the aggregate long position in shares of the Associate corporation represents to the issued share capital of the Associate corporation %</b>
Ilyas Tariq Khan (Note 1 & 2)	Crosby (Hong Kong) Limited	1	110,001	110,002	0.04
	Crosby Asset Management Inc.	100,000	-	100,000	0.04
Johnny Chan Kok Chung	Crosby (Hong Kong) Limited	30,000	-	30,000	0.01
	Crosby Asset Management Inc.	40,000	-	40,000	0.02
Simon Jeremy Fry	Crosby Asset Management Inc.	100,000	-	100,000	0.04

*Note 1:* TW Indus Limited held 40,001 shares in Crosby (Hong Kong) Limited. TW Indus Limited was beneficially wholly-owned by Ilyas Tariq Khan.

*Note 2:* ECK & Partners Limited held 70,000 shares in Crosby (Hong Kong) Limited. 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 70,000 shares owned by ECK & Partners Limited.

Save as disclosed above, as at 30 September 2008, 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) Disclosure of interests of Substantial Shareholders and Other Persons

So far as is known to any Director or the chief executive of the Company, as at 30 September 2008, the following persons, other than the Directors or chief executive of the Company, had interests or 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 were, directly or indirectly, 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 were as follows:

### (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
PMA Capital Management Limited (Note 1)	38,892,600	-	12.86%
Deutsche Bank Aktiengesellschaft	-	38,758,600	12.82%
TBV Holdings Limited (Note 2)	30,205,500	-	9.99%
ECK & Partners Limited (Note 3)	22,488,364	-	7.44%
PMA Prospect Fund (Note 1)	20,241,400	-	6.69%
TW Indus Limited (Note 4)	19,339,914	-	6.39%
Diversified Asian Strategies Fund (Note 1)	18,651,200	-	6.17%

*Note 1:* PMA Capital Management Limited is the investment advisor of PMA Prospect Fund and Diversified Asian Strategies Fund, which are Independent Third Parties. The interest of PMA Prospect Fund and Diversified Asian Strategies Fund in 20,241,400 ordinary shares and 18,651,200 ordinary shares respectively are included in the interest of PMA Capital Management Limited in 38,892,600 ordinary shares.

*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, the interest of ECK & Partners Limited in 22,488,364 ordinary shares is duplicated in the 50,077,685 ordinary shares in which Ilyas Tariq Khan is interested as a Director.

*Note 4:* TW Indus Limited held a direct interest in 19,339,914 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 19,339,914 ordinary shares which are duplicated within the 50,077,685 ordinary shares in which Ilyas Tariq Khan was interested as a Director.

## (ii) 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 2008, 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.

Save as disclosed above, as at 30 September 2008, 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:

- the first thirty percent of the options between the first and tenth anniversary of the date of grant;
- the next thirty percent of the options between the second and tenth anniversary of the date of grant; and
- 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 2008
27 March 2002	24,824,470	HK\$0.704	(24,794,470)	30,000	30,000
18 March 2003	5,400,000	HK\$0.350	(5,400,000)	-	-
14 May 2003	1,500,000	HK\$0.350	(1,000,000)	-	-
18 June 2003	2,606,400	HK\$0.350	(2,606,400)	-	-
11 July 2003	31,200,000	HK\$0.350	(31,200,000)	-	-
1 December 2003	2,100,000	HK\$0.350	(2,100,000)	-	-
20 August 2004	1,500,000	HK\$0.350	-	-	-
24 March 2006	4,000,000	HK\$7.700	-	4,000,000	2,400,000
26 April 2006	18,000,000	HK\$7.700	-	18,000,000	10,800,000
29 January 2007	1,000,000	HK\$3.650	-	1,000,000	300,000
11 February 2008	11,750,000	HK\$1.800	-	11,750,000	-
	<u>103,880,870</u>		<u>(67,100,870)/(Note)</u>	<u>34,780,000</u>	<u>13,530,000</u>

Note: Includes 51,856,400 of share options that have lapsed and are not available for re-use.

No options granted under the Share Option Scheme had been exercised during the nine months ended 30 September 2008.

## (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 11 November 2008. The unaudited consolidated financial statements of the Company for the nine months ended 30 September 2008 has been reviewed by the audit committee.

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

During the nine months ended 30 September 2008, the Company purchased through the Stock Exchange 9,044,541 ordinary shares at prices between HK\$0.104 and HK\$1.078 which were cancelled on 16 April 2008, 14 July 2008, 12 September 2008 and 30 September 2008 respectively.

Neither the Company, nor any of its subsidiaries, has sold or redeemed any of the Company's listed securities during the nine months ended 30 September 2008 (2007: Nil).

By Order of the Board

**Ilyas Tariq Khan**

*Chairman and Chief Executive Officer*

Hong Kong, 13 November 2008

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

*Executive Director: Ilyas Tariq Khan*

*Non-Executive Directors: Johnny Chan Kok Chung, Ahmad S. Al-Khaled and  
Simon Jeremy Fry*

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