K.P.I. Company Limited

Interim Report 2006

Stock Code: 605

VALUE CREATION

CONTENTS

	Page
Management Discussion and Analysis	2
Condensed Consolidated Income Statement	7
Condensed Consolidated Balance Sheet	8
Condensed Consolidated Statement of Changes in Equity	9
Condensed Consolidated Cash Flow Statement	10
Notes to the Condensed Financial Statements	11
Directors' Interests in Share Capital	21
Directors' Rights to Acquire Shares	22
Interests in Substantial Shareholders	23
Share Option	24
Contingent Liabilities	25
Interim Dividend	25
Purchase, Sale or Redemption of the Company's Listed Securities	25
Corporate Governance	25
Model Code for Securities Transactions by Directors	26
Audit Committee	26

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the "Board") of K.P.I. Company Limited (the "Company") is pleased to present the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2006 together with the comparative figures for the last corresponding period as follows:

Overview

For the six months ended 30 June 2006 the Group's unaudited consolidated loss attributable to shareholders amounted to approximately HK$1.71 million. While gradual shift of its business strategy from large transactions of fertilizer trading to retail business in the PRC has already taken place, it is a long term goal of the Group to broaden its earning base and to seek new opportunities to increase shareholders' value.

Business Review

The Group is principally engaged in the retail business in the PRC including supermarkets and chain convenience stores, and investment in securities and real properties.

Since June 2005, the Company has gradually withdrawn from its previous business of trading in chemical fertilizers and agricultural products. The process is now complete. The Directors are of the view that the profit margin from trading in chemical fertilizers is low and in decline, and injecting capital and human resources into the retailing business in the PRC market will generate greater development potential and benefit for the Group.

The Directors are optimistic about prospects of the Group's business and believe that the Group will benefit from a share of the business growth of the retailing market in the PRC.

Material Acquisition and Disposal

As at 30 June 2006, K.P.B. Marketing Limited, a wholly owned subsidiary of the Company, has entered into a conditional sale and purchase agreement for the proposed acquisition of the remaining 49% equity interest in K.P.I. (BVI) Retail Management Company Limited at a consideration of HK$93 million to be satisfied by the issuance of the convertible note of the Company in favour of the vendor. The proposed acquisition required the shareholders passing at the EGM the resolutions approving the sale and purchase agreement and the transaction contemplated thereof including but not limited to the issue of the convertible note.

Upon completion of the acquisition of K.P.I. (BVI) Retail Management Company Limited, the Group's effective interest in Hua Lian GMS Shopping Center Company Limited ("Shanghai Hualian") will increase to 40%. Shanghai Hualian conducted a comprehensive review on individual outlet performance in 2005 and several poorly performed outlets were closed down. The management of Shanghai Hualian will continue to adopt a prudent approach to store expansion and conduct operational review more regularly to meet the ever-changing environment. In particular, the product mix and regional penetration strategy will be re-adjusted and more emphasis will be placed on overhead control, supply chain development and management efficiency. Based on the results of Shanghai Hualian (prepared based on generally accepted accounting principles in the PRC) for the three years ended 31 December 2005 as adjusted by excluding the share of results of all loss-making outlets in north-eastern PRC (such as Jilin and Harbin) closed down during March 2005 to December 2005, Shanghai Hualian would have a net profit after tax of about RMB2.1 million, RMB36.0 million and RMB32.8 million respectively. In terms of the number of hypermarket stores, the Board believes that Shanghai Hualian is one of the largest and best-known operators in the PRC. Given the above, the Board is of the view that Shanghai Hualian will benefit from the economic growth of the PRC in the near future and the operating profit of Shanghai Hualian will show a significant improvement in 2006. For the six months ended 30 June 2006, the audited net profit after tax of Shanghai Hualian was approximately RMB5.3 million. The increase in equity stakes in Shanghai Hualian will secure for the Group a share of the business growth of the retailing market in the PRC as well as an influence over the management of Shanghai Hualian.

The issue of the convertible note as consideration for the acquisition will also preserve the cash position of the Group. Save for the interest burden from the issue of the convertible note, which is estimated to be of approximately HK$16 million for two years (assuming that the convertible note is not converted into shares), the Board does not consider that the issue of the convertible note will have any significant financial impact on the Group. Although the issue of the convertible note may have a dilution effect on the shareholding of the Company, it is expected that the Group will in long run benefit from the growth of Shanghai Hualian leading to an enhancement of the value of the shares.

In April 2006, K.P.I. (BVI) Retail Management Company Limited, the Group's jointly controlled entity, disposed of its entire interest in K.P.I. Convenience Retail Company Limited ("KPICR") to its then immediate parent company K.P.B. Marketing Limited and CRF Investment, LDC for a consideration of HK$2 for the purpose of internal restructuring. KPICR has loan receivables from a convenience store operator in Beijing at an amount of approximately HK$42.8 million, of which approximately HK$23 million was provided for doubtful debts in 2003 in respect of the loan advanced to the convenience stores for the purposes of commencing the business. The provision was recorded as "other operating expense" and was made for prudence sake in view of the loss making position of the convenience stores. As it is the business practice of the Group to facilitate the establishment of the stores through the provision of loan, it is not related to the credit control of the Group. After completion of such transfer, KPI Retail Management has no claim on any outstanding liabilities due from KPICR or indirectly from the convenience store operator through KPICR. Such disposal resulted in a loss of HK$19,845,499 in the books of KPI Retail Management but there is no financial impact on the Group as a whole as the relevant loss has been offset by the discount on acquisition recorded in K.P.B. Marketing Limited which is a wholly owned subsidiary of the Company.

Advances to Entities

In accordance with Rules 13.13 and 13.20 of the Listing Rules, the details of advances provided by the Group to entities, which individually exceeded 8% of the Company's market capitalization of approximately HK$223 million (based on the average closing price of the Company's shares as stated on the Stock Exchange for the five business days immediately preceding 30 June 2006 and 1,015,877,336 shares of the Company in issue as at 30 June 2006) were as follows:

On 31 March 2006, K.P.B. Marketing Limited, a wholly owned subsidiary of the Company, entered into a loan agreement with Mr Zhang Qizhong, an independent third party, in relation to a loan facility of RMB60 million provided to Mr Zhang for his general working capital.

Loan facility due from an independent third party

Name	**Outstanding amount (principal plus interest accrued)** *HK$*
Mr Zhang Qizhong	57,428,102

The maturity date of the loan facility is one year from the date of the loan agreement. The interest rate applicable to the facility is fifteen percent (15%) per annum.

On 28 April 2006, K.P.B Marketing Limited, a wholly owned subsidiary of the Group, acquired 51% equity interest of KPICR. As a result of the acquisition, KPICR becomes a non wholly owned subsidiary of the Group. KPICR has loan receivables from a convenience store operator in Beijing.

Loan receivables due from a convenience store operator

Name	**Outstanding amount** *HK$*
Beijing K.P.I. Hi-24 Covenience Stores Co., Ltd.	42,860,893

The loan receivables are unsecured, interest-free and have no fixed terms of repayment.

Future Outlook

Once the Group's interest in Shanghai Hualian increases and the results of Shanghai Hualian are consolidated into the Group's accounts, the turnover will increase substantially to reflect the Group position as a successful retailing operator. In addition, it is believed that the favourable situation forged by the Group's new major businesses will bring more opportunities with high growth potential and munificent reward.

Financial Review

As at 30 June 2006, the Group's cash and bank balances amounted to approximately HK$53.8 million, of which approximately HK$23.4 million bank deposits were pledged to secure general banking facilities granted to the Group. Certain of the Group's properties with net book values of HK$13.0 million were also pledged to secure general banking facilities. With an objective to enhance the return on surplus cash in hand, the Group had invested in marketable securities and financial products. As at 30 June 2006, these investments were stated at their fair values in an amount of approximately HK$13.3 million.

The majority of the Group's revenues, expenses and cashflows are denominated in RMB and HK Dollars. Assets and liabilities of the Group are mostly denominated in RMB, HK Dollars and US Dollars. As such, the Group has limited foreign exchange exposure. As at 30 June 2006, the Group had bank borrowings of approximately HK$23.4 million and no financial instruments held for hedging purpose. The gearing ratio, representing total interest bearing borrowings as a percentage of total equity was 12.9% as at 30 June 2006 (as at 31 December 2005: 0%). The Group's current ratio defined as total current assets to total current liabilities was 4.8 as at 30 June 2006 (as at 31 December 2005: 8.3).

Employees and Remuneration Policies

As at 30 June 2006, the Group had about 20 employees (as at 31 December 2005: 25), 15 of whom are based in Hong Kong while 5 are stationed in the PRC. The Group continued to recruit graduates from well-known universities and extensive working experience in the PRC. For the six months ended 30 June 2006, total staff costs were about HK$3.0 million. Competitive remuneration packages are structured to commensurate with individual responsibilities, qualification, experience and performance.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30 June 2006 (unaudited) HK$'000	2005 (unaudited) HK$'000
TURNOVER	2	**141**	61,631
Cost of sales		**–**	(60,212)
Gross profit		**141**	1,419
Other revenue	2	**4,990**	1,150
Administrative expenses		**(7,602)**	(8,712)
Changes in fair value on investment properties		**500**	1,000
Discount on acquisition	4	**10,121**	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	5	**8,150**	(5,143)
Finance costs		**(325)**	(92)
Share of results of jointly controlled entities	6	**(9,531)**	(703)
LOSS BEFORE TAXATION		**(1,706)**	(5,938)
Income tax expenses	7	**–**	–
LOSS FOR THE PERIOD		**(1,706)**	(5,938)
ATTRIBUTABLE TO:			
Equity holders of the Company		**(1,706)**	(5,938)
Minority interest		**–**	–
		(1,706)	(5,938)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
– Basic	8	**(HK0.17 cents)**	(HK0.58 cents)
– Diluted	8	**(HK0.17 cents)**	(HK0.58 cents)

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2006 (unaudited) HK$'000	31 December 2005 (audited) HK$'000 (restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,737**	1,953
Land lease premium		**2,093**	2,115
Investment property		**13,000**	12,500
Interests in an associate		**–**	–
Interests in jointly controlled entities		**24,977**	34,508
Available-for-sale investments		**3,534**	3,534
		45,341	54,610
CURRENT ASSETS			
Financial assets at fair value through profit or loss		**13,347**	16,445
Trade and bills receivables	*9*	**–**	–
Other receivables, deposits and prepayments		**44,271**	25,650
Amount due from jointly controlled entities		**3,291**	3,291
Loan receivables		**55,956**	–
Interest receivables		**1,472**	–
Pledged time deposits		**23,400**	37,900
Cash and cash equivalents		**30,407**	52,064
		172,144	135,350
CURRENT LIABILITIES			
Trade and bills payables	*10*	**–**	–
Amount due to jointly controlled entities		**–**	4,495
Other payables and accruals		**12,076**	11,737
Financial liabilities at fair value through profit or loss		**314**	51
Bank loan		**23,400**	–
		35,790	16,283
NET CURRENT ASSETS		**136,354**	119,067
NET ASSETS		**181,695**	173,677
CAPITAL AND RESERVES			
Share capital	*11*	**101,588**	101,588
Reserves		**70,383**	72,089
		171,971	173,677
MINORITY INTEREST		**9,724**	–
TOTAL EQUITY		**181,695**	173,677

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Employee share-based compen-sation reserve	Capital reserve	Statutory public welfare reserve	Exchange fluctuation reserve	Statutory surplus reserve	Accumu-lated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 01/01/2006 (audited)	101,588	106,879	4,459	–	173	2,688	205	(42,315)	173,677
Loss for the period	–	–	–	–	–	–	–	(1,706)	(1,706)
At 30/6/2006 (unaudited)	101,588	106,879	4,459	–	173	2,688	205	(44,021)	171,971

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Net cash outflow from operating activities	**(5,432)**	(4,780)
Net cash outflow from investing activities	**(39,625)**	(14,049)
Net cash inflow/(outflow) from financing activities	**23,400**	(319)
(Decrease)/increase in cash and cash equivalents	**(21,657)**	(19,148)
Cash and cash equivalents at beginning of period	**52,064**	89,024
Cash and cash equivalents at end of period	**30,407**	69,876
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	**3,604**	3,779
Time deposits	**26,803**	66,097
	30,407	69,876

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of Preparation and Significant Accounting Policies

The audited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The unaudited condensed consolidated interim financial statements have been prepared in accordance with those HKAS and Hong Kong Financial Reporting Standard ("HKFRS") and interpretations issued and effective as at the time of preparing this unaudited condensed consolidated interim financial statements.

The basis of preparation and accounting policies adopted in the preparation of the interim financial statements are the same as those used in the preparation of the annual financial statements for the year ended 31 December 2005, except for the adoption of the following amendments mandatory for annual periods beginning on or after 1 January 2006:

(a) Amendment to HKAS 21 The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation

(b) Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions

(c) Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – The Fair Value Option

(d) Amendment to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 4 Insurance Contracts – Financial Guarantee Contracts

(e) HKFRS Interpretation 4 – Determining Whether an Arrangement Contains a Lease

(f) Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to HKAS 1 Presentation of Financial Statements, HKAS 27 Consolidated and Separate Financial Statements and HKFRS 3 Business Combinations

The adoption of these amendments has had no material impact on the accounting policies of the Group and the methods of computation in the Group's interim financial statements.

The Group has not early adopted the following new/revised HKFRSs, HKASs and Interpretations that have been issued but not yet effective for the accounting period ending 31 December 2006. The Group is in the process of making an assessment of the impact of these new/revised HKFRSs, HKASs and Interpretations to the Group's results of operations and financial position in the period of initial application.

1. Basis of Preparation and Significant Accounting Policies *(continued)*

		Effective for accounting periods beginning on or after
HK(IFRIC) Interpretation 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies	1 March 2006
HK(IFRIC) Interpretation 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) Interpretation 9	Reassessment of Embedded Derivatives	1 June 2006
Amendment to HKAS 1	Presentation of Financial Statements: Capital Disclosures	1 January 2007
HKFRS 7	Financial Instruments: Disclosure	1 January 2007

2. Turnover and Revenue

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts, and the rental income received and receivable during the six months period.

An analysis of turnover, other revenue and gains is as follows:

	For the six months period ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Turnover		
Sale of goods	**–**	61,488
Gross rental income	**141**	143
	141	61,631
Other revenue		
Dividend income from investments at fair value through profit or loss/available-for-sales investments	**25**	388
Interest income	**3,551**	783
Gain on disposal of investment at fair value through profit or loss	**2,257**	1,269
Changes in fair values of investment at fair value through profit or loss	**(871)**	(1,382)
Exchange gain, net	**5**	64
Sundry income	**23**	28
Total revenue	**4,990**	1,150

3. Segmental Information

The following table presents revenue and loss for the Group's business segments.

(a) Business segments

An analysis of the Group's performance by business segments, namely 'chemical fertiliser', 'property investment' and 'corporate and others' is as follows:

Six months ended 30 June

	Chemical fertiliser		Property investment		Corporate and others		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**–**	61,488	**12**	13	**129**	130	**141**	61,631
Other revenue	**–**	–	**6**	–	**17**	29	**23**	29
Total	**–**	61,488	**18**	13	**146**	159	**164**	61,660
Segment results	**–**	838	**(395)**	(409)	**(7,043)**	(7,693)	**(7,438)**	(7,264)
Discount on acquisition							**10,121**	–
Changes in fair value on investment properties							**500**	1,000
Interest and dividend income and unallocated gains							**4,967**	1,121
Unallocated expenses							**–**	–
(Loss)/profit from operating activities							**8,150**	(5,143)
Finance costs							**(325)**	(92)
Share of results of jointly controlled entities							**(9,531)**	(703)
Loss from ordinary activities before taxation							**(1,706)**	(5,938)
Income tax expenses							**–**	–
Net loss from ordinary activities after taxation attributable to shareholders							**(1,706)**	(5,938)

3. Segmental Information *(continued)*

(b) Geographical segments

	Turnover		Contribution to (loss)/profit from operating activities	
	Six months ended 30 June			
	2006 (unaudited) *HK$'000*	2005 (unaudited) *HK$'000*	**2006 (unaudited) *HK$'000***	2005 (unaudited) *HK$'000*
Hong Kong	**132**	133	**(7,181)**	(7,891)
PRC	**9**	61,498	**(257)**	627
	141	61,631	**(7,438)**	(7,264)
Discount on acquisition			**10,121**	–
Change in fair value on investment properties			**500**	1,000
Interest and dividend income and unallocated gains			**4,967**	1,121
(Loss)/profit from operating activities			**8,150**	(5,143)

4. Discount on Acquisition

On 28 April 2006, K.P.B. Marketing Limited, the Group's wholly owned subsidiary, acquired 51% equity interest of K.P.I. Convenience Retail Company Limited from K.P.I. (BVI) Retail Management Company Limited, the Group's jointly controlled entity, for a consideration of HK$1. Pursuant to HKFRS 3, a discount on acquisition arising on an acquisition of a subsidiary or a jointly controlled entity for which an agreement date is on or after 1 January 2006 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. The amount of negative goodwill arising as a result of the acquisition was approximately HK$10,121,204.

Effective interest in net assets acquired by the Group:

	HK$
Other receivables	21,859,055
Provision for bad debts	(11,739,233)
Cash at banks	1,383
	10,121,205
Negative goodwill	(10,121,204)
Total consideration	1

5. (Loss)/profit from Operating Activities

The Group's (loss)/profit from operating activities is arrived at after charging/(crediting):

	Six months ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
		(restated)
Depreciation	**216**	189
Amortisation of land lease premium	**22**	22
Operation lease rentals	**915**	899
Staff cost (including related expenses for share option schemes)	**3,036**	5,299
Gain on disposal of investments at fair value through profit or loss	**(2,257)**	(1,269)
Change in fair value of investments at fair value through profit or loss, net	**871**	1,382
Change in fair value of investment properties	**(500)**	(1,000)
Loss on disposal of fixed assets	**–**	18
Interest income	**(3,551)**	(783)
Dividend income from investments at fair value through profit or loss/available-for-sales investments	**(25)**	(388)
Exchange gains, net	**(5)**	(64)
Discount on acquisition	**(10,121)**	–
Sundry income	**(23)**	(28)

6. In April 2006, K.P.I. (BVI) Retail Management Company Limited, the Group's jointly controlled entity, disposed of its entire interest in K.P.I. Convenience Retail Company Limited to its immediate parent company K.P.B. Marketing Limited and CRF Investment, LDC for a consideration of HK$2 for the purpose of internal restructuring. For the six months period ended 30 June 2006, the share of results of jointly controlled entities includes the share of loss of such disposal amounting to HK$10,121,204.

7. Income Tax Expenses

	Six months ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current Taxation		
Hong Kong profits tax	**–**	–
Share of PRC tax	**–**	–
Tax charge for the period	**–**	–

No Hong Kong profits tax has been provided for in the financial statements as the Group has no assessable profits for the period (2005: Nil).

The share of profit less losses of jointly controlled and associated companies are shown after tax in accordance with HKAS 1. Previously, tax had been shown separately.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the places in which the Group operates, based on existing legislation, practices and interpretations thereof.

No provision for deferred taxation has been made as the Company and its subsidiaries had no significant unprovided timing differences at each of the balance sheet dates.

8. Loss per Share

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

	Six months ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Loss for the purposes of basic and diluted loss per share	**(1,706)**	(5,938)
	Number of shares	
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,015,877,336**	1,015,877,336
Effect of dilutive potential ordinary shares:		
Share options	**6,233,830**	3,977,088
Weighted average number of ordinary shares for the purpose of diluted loss per share	**1,022,111,166**	1,019,854,424

9. Trade and Bills Receivables

The ageing analysis of the Group's trade and bills receivables is analysed as follows:

	30 June 2006 (unaudited) ***HK$'000***	31 December 2005 (audited) *HK$'000*
Outstanding balances with ages		
Current	–	–
1 to 3 months overdue	–	–
More than 3 months overdue but less than 12 months overdue	–	–
Overdue more than 1 year	–	–
	–	–

Note: The carrying amounts of trade and bills receivables approximate to their fair values.

10. Trade and Bills Payables

The ageing analysis of the Group's trade and bills payables is analysed as follows:

	30 June 2006 (unaudited) ***HK$'000***	31 December 2005 (audited) *HK$'000*
Outstanding balances with ages:		
Due within 1 month or on demand	–	–
Due after 1 month but within 3 months	–	–
Due after 3 months but within 12 months	–	–
Due after 1 year	–	–
	–	–

Note: The carrying amounts of trade and bills payables approximate to their fair values.

11. Share Capital

	30 June 2006 (unaudited) No. of shares	30 June 2006 (unaudited) HK$'000	31 December 2005 (audited) No. of shares	31 December 2005 (audited) HK$'000
Authorised				
Ordinary share of HK$0.10 each	**2,000,000,000**	**200,000**	2,000,000,000	200,000
Issued and fully paid				
Ordinary share of HK$0.10 each	**1,015,877,336**	**101,588**	1,015,877,336	101,588

12. Operating Lease Arrangements

(a) As lessor

The Group leases its investment property and golf club membership under operating lease arrangements, with leases negotiated for terms ranging from one year for investment property and one to two years for golf club membership. The terms of the leases generally also require the lessees to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non cancellable operating leases with its lessees falling due as follows:

	30 June 2006 (unaudited) HK$'000	31 December 2005 (audited) HK$'000
Within one year	**93**	62
In the second to fifth years, inclusive	**3**	12
	96	74

12. Operating Lease Arrangements *(continued)*

(b) As lessee

The Group leases certain of its office properties and director's quarter under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to ten years, and those for director's quarter for a term of 2 years.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non cancellable operating leases falling due as follows:

	30 June 2006 (unaudited) *HK$'000*	31 December 2005 (audited) *HK$'000*
Within one year	**1,777**	1,131
In the second to fifth years, inclusive	**3,090**	67
After the fifth years	**13**	21
	4,880	1,219

13. Related Party Transactions

For the six months period, the Group had the following significant transactions with related parties:

(a) Related party transactions included in the profit and loss account

		Six months ended 30 June	
	Notes	**2006 (unaudited)** *HK$'000*	2005 (unaudited) *HK$'000*
Rental expenses to a company controlled by directors	*(i)*	**498**	498
Rental income from a jointly controlled entity	*(ii)*	**(78)**	(78)

Notes:

(i) Rental expenses for directors was paid to a company controlled by them. The monthly rental of HK$83,000 was calculated by reference to open market rental.

(ii) Rental income was received from a jointly controlled entity. The monthly rental was mutually agreed by both parties.

13. Related Party Transactions *(continued)*

(b) Related party transactions included in the balance sheet

	30 June 2006 (unaudited) ***HK$'000***	31 December 2005 (audited) *HK$'000*
Amounts due from jointly controlled entities	**3,291**	3,291
Amounts due to jointly controlled entities	**–**	(4,495)

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2006 (unaudited) ***HK$'000***	2005 (unaudited) *HK$'000*
Salaries, allowances and other benefits	**1,414**	1,414
Pension scheme contribution	**6**	6
Share-based payments expenses	**–**	48
	1,420	1,468

14. Approval of the Interim Financial Report

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of the Company on 29 August 2006.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 June 2006, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of Part XV the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transaction by Directors of Listed Companies ("Model Code"), were as follows:

Long positions in shares and underlying shares of the Company

Name of Director	Capacity	Number of ordinary shares held	Underlying shares interested *(Note 1)*	Aggregate long position in shares and underlying shares to issued share capital
Cheung Siu Lam	Beneficial owner of 459,044,240 ordinary shares and 1,000,000 underlying shares, family interest of 32,282,000 ordinary shares and 1,000,000 underlying shares *(Note 2)* and interest in controlled corporation of 86,400,000 ordinary shares *(Note 3)*	577,726,240	2,000,000	57.06%
Lo Wan	Beneficial owner of 32,282,000 ordinary shares and 1,000,000 underlying shares, family interest of 545,444,240 ordinary shares and 1,000,000 underlying shares *(Note 4)*	577,726,240	2,000,000	57.06%
Chan Yuk Ming	Beneficial owner	–	10,000,000	0.98%
Yu Hei Wung, Raymond	Beneficial owner	–	7,000,000	0.68%

Notes:

1. The number of shares represents the shares in which the directors are deemed to be interested as a result of holding share options.

2. By virtue of the SFO, Cheung Siu Lam is deemed to be interested in 32,282,000 ordinary shares and 1,000,000 underlying shares held by Lo Wan.

3. Arbalice Holdings Limited is beneficially owned as to 60% by Cheung Siu Lam, 27.5% by Lo Wan and 12.5% by Zhang Wei. By virtue of the SFO, Cheung Siu Lam is deemed to be interested in 86,400,000 shares held by Arbalice Holdings Limited.

4. By virtue of the SFO, Lo Wan is deemed to be interested in 545,444,240 ordinary shares including 459,044,240 shares held by Cheung Siu Lam as a beneficial owner and 86,400,000 shares held by Cheung Siu Lam through his interest in Arbalice Holdings Limited and 1,000,000 underlying shares held by Cheung Siu Lam.

Save as disclosed above, none of the Directors, chief executives or any of their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations were recorded in the register required to be kept under Section 352 of the SFO as at 30 June 2006.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the headings "Directors' interests in share capital" above and "Share option" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

INTERESTS IN SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, the following company and persons were interested in more than 5% of the issued share capital of the Company according to the register kept by the Company under Section 336 of the SFO:

Long positions in shares and underlying shares of the Company

Name	Capacity	Number of shares held	Underlying shares interested	Aggregate long position in shares and underlying shares to issued share capital
Cheung Siu Lam	Beneficial owner of 459,044,240 ordinary shares and 1,000,000 underlying shares, family interest of 32,282,000 ordinary shares and 1,000,000 underlying shares and interest in controlled corporation of 86,400,000 ordinary shares	577,726,240	2,000,000	57.06%
Lo Wan	Beneficial owner of 32,282,000 ordinary shares and 1,000,000 underlying shares, family interest of 545,444,240 ordinary shares and 1,000,000 underlying shares	577,726,240	2,000,000	57.06%
Arbalice Holdings Limited *(Note)*	Beneficial owner	86,400,000	–	8.50%

Note: The above interest in the name of Arbalice Holdings Limited was also disclosed as interests of Cheung Siu Lam in the sections of "Directors' interests in share capital" and "Interests in substantial shareholders".

Save as disclosed above, no person had registered an interest or a short position in the shares, underlying shares or debentures of the Company that was required to be recorded under Section 336 of the SFO.

SHARE OPTION

The Company adopted a new share option scheme on 7 June 2004 (the "New Scheme") whereby the directors of the Company are authorised, at their discretion, to invite any eligible employee (including executive directors), any non-executive director (including independent non-executive directors), any shareholder of any member of the Group, any supplier and customer of the Group and any technical, financial and legal professional adviser of the Group, to take up options to subscribe for shares of the Company.

During the period under review, no share options were granted. Details of the share options granted under the New Scheme are as follows:

As at 30 June 2006, the executive, non-executive directors and employees of the Group have the following interests under the New Scheme.

Director	Date of offer	Exercise price	Outstanding at 1.1.2006	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30.6.2006	Exercise period	Closing price of the securities immediately before the date on which the options were offered
Cheung Siu Lam	02.02.05	0.138	1,000,000	–	–	–	1,000,000	02.02.05 – 06.06.14	0.131
Lo Wan	02.02.05	0.138	1,000,000	–	–	–	1,000,000	02.02.05 – 06.06.14	0.131
Chan Yuk Ming	02.02.05	0.138	10,000,000	–	–	–	10,000,000	02.02.05 – 06.06.14	0.131
Yu Hei Wung, Raymond	02.02.05	0.138	7,000,000	–	–	–	7,000,000	02.02.05 – 06.06.14	0.131
Employees in aggregate	10.01.05	0.126	48,500,000	–	–	–	48,500,000	10.01.05 – 06.06.14	0.126
	01.09.05	0.156	32,000,000	–	–	–	32,000,000	01.09.05 – 06.06-14	0.156

CONTINGENT LIABILITIES

As at 30 June 2006, the Group has no significant contingent liabilities.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months period ended 30 June 2006 (2005: Nil).

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2006.

CORPORATE GOVERNANCE

The Company has compiled with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2006, except for code provisions A.2.1, B.1.1, and E.1.2:

1. Code provision A.2.1

Mr Cheung Siu Lam, acts as chairman of the Company, is also responsible for overseeing the general operations of the Group. The Company does not separate the roles of chairman and chief executive officer and Mr Cheung currently holds both position, the Board is in the opinion that the combination of the roles of chairman and chief executive officer can ensure the efficient formulation and implementation of the Company's strategies to identify and follow up on business opportunities. This constitutes a deviation from code provision A.2.1 of the Code.

2. Code provision B.1.1

The Company did not establish a remuneration committee with specific terms of reference during the six months ended 30 June 2006. It is the intention of the Board to establish a remuneration committee in the future.

3. Code provision E.1.2

The chairman of the Board, Mr Cheung Siu Lam did not attend the annual general meeting held on 23 May 2006 due to some personal reasons. However, other executive directors and chairman of audit committee were all present in that annual general meeting.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own Code of Conduct, which laid down terms no less exacting than those set out in the Appendix 10 of the Listing Rules, regarding directors' transactions in securities of the Company. All directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2006.

AUDIT COMMITTEE

The Audit Committee, which comprises three independent non-executive directors, has reviewed the interim results for six months ended 30 June 2006. The primary duties of the audit committee are review and advise on the accounting principles and practices adopted by the Group auditing, financial reporting and internal control system of the Group.

On behalf of the Board
Cheung Siu Lam
Chairman

Hong Kong, 29 August 2006