



**Burwill** Holdings Limited

寶威控股有限公司

(incorporated in Bermuda with limited liability)

Stock code : 24

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Interim Report

2006

**INTERIM FINANCIAL STATEMENTS**

The Directors of Burwill Holdings Limited (the "Company") are pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2006 as follows:–

**Condensed Consolidated Income Statement**

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2006</b>	<b>2005</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Sales</b>	2	<b>1,988,158</b>	1,869,661
Cost of sales		<b>(1,949,253)</b>	(1,816,514)
		<hr/>	<hr/>
Gross profit		<b>38,905</b>	53,147
Other gains, net	3	<b>224,209</b>	76,296
Selling and distribution expenses		<b>(16,875)</b>	(14,606)
General and administrative expenses		<b>(37,932)</b>	(46,396)
		<hr/>	<hr/>
Operating profit	2 & 4	<b>208,307</b>	68,441
Finance costs	5	<b>(28,142)</b>	(21,327)
Share of losses of associates		<b>(1,522)</b>	(4,752)
		<hr/>	<hr/>
<b>Profit before taxation</b>		<b>178,643</b>	42,362
Taxation	6	<b>(591)</b>	(1,901)
		<hr/>	<hr/>
<b>Profit for the period</b>		<b>178,052</b>	40,461
		<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
Equity holders of the Company		<b>178,501</b>	41,210
Minority interests		<b>(449)</b>	(749)
		<hr/>	<hr/>
		<b>178,052</b>	40,461
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share for profit attributable to the equity holders of the Company during the period	7		
– basic		<b>17.29 HK Cents</b>	3.91 HK Cents
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**Condensed Consolidated Balance Sheet**

		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
		<b>2006</b>	2005
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Leasehold land and land use rights		<b>91,621</b>	92,526
Property, plant and equipment		<b>150,255</b>	155,268
Investment properties		<b>209,480</b>	209,480
Intangible assets		<b>100</b>	–
Investment in associates	8	<b>334,484</b>	118,929
Available-for-sale financial assets		<b>9,309</b>	9,310
Other receivables		<b>302</b>	407
Deferred tax assets		<b>9,832</b>	9,805
		<b>805,383</b>	595,725
<b>Current assets</b>			
Inventories		<b>163,511</b>	194,089
Properties held for sale		<b>28,267</b>	28,779
Held-to-maturity financial assets		<b>16,054</b>	23,423
Financial assets at fair value through profit or loss		<b>16,457</b>	31,027
Bills and accounts receivable	9	<b>1,059,595</b>	879,634
Deposits, prepayments and other receivables		<b>140,926</b>	175,031
Due from an associate		<b>1,158</b>	1,010
Taxation recoverable		<b>23</b>	21
Pledged bank deposits		<b>1,437</b>	1,431
Other cash and bank balances		<b>186,342</b>	203,878
		<b>1,613,770</b>	1,538,323
<b>Total assets</b>		<b>2,419,153</b>	2,134,048
<b>EQUITY</b>			
Capital and reserves attributable to the Company's equity holders			
Share capital	10	<b>103,213</b>	103,213
Other reserves		<b>488,865</b>	487,006
Retained profits			
– Proposed dividends		–	30,964
– Others		<b>383,051</b>	204,550
		<b>975,129</b>	825,733
Minority interests		<b>39,761</b>	49,505
<b>Total equity</b>		<b>1,014,890</b>	875,238

**Condensed Consolidated Balance Sheet** (continued)

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2006</b>	2005
Notes	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Borrowings	<b>227,034</b>	289,338
Deferred tax liabilities	<b>35,358</b>	34,860
	<b>262,392</b>	324,198
<b>Current liabilities</b>		
Borrowings	<b>532,453</b>	501,922
Due to an associate	<b>21,987</b>	16,058
Bills and accounts payable	<b>487,099</b>	341,112
Other payables and accruals	<b>69,359</b>	75,110
Dividend payable	<b>30,964</b>	–
Taxation payable	<b>9</b>	410
	<b>1,141,871</b>	934,612
<b>Total current liabilities</b>	<b>1,141,871</b>	934,612
<b>Total liabilities</b>	<b>1,404,263</b>	1,258,810
<b>Total equity and liabilities</b>	<b>2,419,153</b>	2,134,048
<b>Net current assets</b>	<b>471,899</b>	603,711
<b>Total assets less current liabilities</b>	<b>1,277,282</b>	1,199,436

**Condensed Consolidated Statement of Changes in Equity**

	Unaudited Six months ended 30 June 2005				
	Attributable to equity holders of the Company				
	Share capital HK\$'000	Other reserves HK\$'000	Retained profit HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2005	105,411	482,036	183,941	47,704	819,092
Currency translation differences	–	68	–	26	94
Profit for the period	–	–	41,210	(749)	40,461
Total recognised income for the period	–	68	41,210	(723)	40,555
Share of reserves of associates	–	131	–	–	131
Acquisition of additional equity interests of a subsidiary	–	–	–	(484)	(484)
Dividend payable	–	–	(18,974)	–	(18,974)
At 30 June 2005	<u>105,411</u>	<u>482,235</u>	<u>206,177</u>	<u>46,497</u>	<u>840,320</u>

	Unaudited Six months ended 30 June 2006				
	Attributable to equity holders of the Company				
	Share capital HK\$'000	Other reserves HK\$'000	Retained profit HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2006	103,213	487,006	235,514	49,505	875,238
Currency translation differences	–	(92)	–	(147)	(239)
Profit for the period	–	–	178,501	(449)	178,052
Total recognised income for the period	–	(92)	178,501	(596)	177,813
Share of reserves of associates	–	1,951	–	–	1,951
Capital injection	–	–	–	144	144
Acquisition of additional equity interests of a subsidiary	–	–	–	(3,530)	(3,530)
Dividends of subsidiaries	–	–	–	(5,762)	(5,762)
Dividend payable	–	–	(30,964)	–	(30,964)
At 30 June 2006	<u>103,213</u>	<u>488,865</u>	<u>383,051</u>	<u>39,761</u>	<u>1,014,890</u>

**Condensed Consolidated Cash Flow Statement**

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net cash used in operating activities	<b>(31,677)</b>	(300,198)
Net cash generated from/(used in) investing activities	<b>49,542</b>	(18,201)
Net cash (used in)/generated from financing activities	<b>(34,227)</b>	244,937
Increase in pledged bank deposits	<b>(6)</b>	(5)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	<b>(16,368)</b>	(73,467)
Cash and cash equivalents, beginning of the period	<b>200,193</b>	262,930
	<hr/>	<hr/>
Cash and cash equivalents, end of the period	<b>183,825</b>	189,463
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	<b>186,342</b>	193,873
Bank overdrafts	<b>(2,517)</b>	(4,410)
	<hr/>	<hr/>
	<b>183,825</b>	189,463
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**NOTES TO CONDENSED FINANCIAL STATEMENTS****1. Basis of preparation and accounting policies**

The unaudited condensed consolidated financial statements have been prepared in accordance with HKAS 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The unaudited condensed consolidated financial statements should be read in conjunction with the 2005 annual financial statements.

The accounting policies used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2005, except that the Group has adopted the following new amendments to standards and interpretation which are mandatory for financial year ending 31 December 2006 and are relevant to its operations.

HKAS 21 (Amendment) Net Investment in a Foreign Operation

HKAS 39 and HKFRS 4  
(Amendments) Financial Guarantee Contracts

HKFRS-Int 4 Determining whether an Arrangement contains a Lease

The adoption of such standards or interpretation has no significant effect on these financial statements.



## 2. Segment information

(a) Primary reporting format – business segments

The Group is organised into three major operating units: (i) steel trading, warehousing and distribution; (ii) steel manufacturing and processing; and (iii) property development and investment.

Turnover recognised during the six months period is as follows:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Sale of goods	<b>1,971,058</b>	1,856,165
Sale of properties held for sale	<b>3,534</b>	1,720
Rental income	<b>5,877</b>	6,269
Service income	<b>7,689</b>	5,507
	<b><u>1,988,158</u></b>	<u>1,869,661</u>

	Unaudited					
	Six months ended 30 June 2005					
	Steel trading, warehousing and distribution HK\$'000	Steel manufacturing and processing HK\$'000	Property development and investment HK\$'000	Others HK\$'000	Unallocated HK\$'000	Total HK\$'000
Total gross segment sales	1,643,788	233,674	8,082	13,793	–	1,899,337
Inter-segment sales	(29,050)	–	(93)	(533)	–	(29,676)
Sales	<u>1,614,738</u>	<u>233,674</u>	<u>7,989</u>	<u>13,260</u>	<u>–</u>	<u>1,869,661</u>
Operating profit/(loss)	17,238	3,263	(1,635)	(212)	49,787	68,441
Finance costs						(21,327)
Share of losses of associates						(4,752)
Profit before taxation						42,362
Taxation						(1,901)
Profit for the period						<u>40,461</u>



## 2. Segment information (continued)

### (a) Primary reporting format – business segments (continued)

	Unaudited Six months ended 30 June 2006					Total HK\$'000
	Steel trading, warehousing and distribution HK\$'000	Steel manufacturing and processing HK\$'000	Property development and investment HK\$'000	Others HK\$'000	Unallocated HK\$'000	
Total gross segment sales	1,751,171	232,122	9,506	9,800	-	2,002,599
Inter-segment sales	(14,180)	-	(261)	-	-	(14,441)
Sales	<u>1,736,991</u>	<u>232,122</u>	<u>9,245</u>	<u>9,800</u>	<u>-</u>	<u>1,988,158</u>
Operating profit/(loss)	(2,557)	2,071	1,001	(566)	208,358	208,307
Finance costs						(28,142)
Share of losses of associates						<u>(1,522)</u>
Profit before taxation						178,643
Taxation						<u>(591)</u>
Profit for the period						<u><u>178,052</u></u>

### (b) Secondary reporting format – geographical segments

	Unaudited Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Sales (by location of customers)		
– Mainland China	993,339	1,160,862
– Hong Kong	-	192,540
– Asia (other than Mainland China and Hong Kong)	770,632	440,995
– Europe	224,187	75,264
	<u>1,988,158</u>	<u>1,869,661</u>



**3. Other gains, net**

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net fair value gain on financial assets at fair value through profit or loss	<b>4,278</b>	69,456
Interest income:		
– on bank deposits	<b>1,223</b>	718
– on financial assets	<b>592</b>	355
– on other receivables	<b>877</b>	284
Dividend income	<b>632</b>	18
	<hr/>	<hr/>
Investment income	<b>7,602</b>	70,831
Net loss on disposals of investment properties	–	(22)
Net gain on disposals of property, plant and equipment	<b>85</b>	–
Dilution gain in an associate (Note)	<b>212,842</b>	–
Claims	–	2,887
Others	<b>3,680</b>	2,600
	<hr/>	<hr/>
	<b>224,209</b>	76,296
	<hr/>	<hr/>

Note: The Group's equity interest in China LotSynergy Holdings Limited was diluted from 26.84% to 21.75% as a result of the issuance of new shares of China LotSynergy Holdings Limited during the period. In this connection, the Group recognised a dilution gain.

**4. Operating profit**

Operating profit is stated after charging and crediting the following:–

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Depreciation of property, plant and equipment	<b>5,561</b>	5,927
Amortisation of prepaid operating lease payment	<b>905</b>	821
Operating lease rentals	<b>5,142</b>	6,553
Provision for impairment of receivable	–	6,000
Net exchange (gain)/loss	<b>(435)</b>	226
	<hr/>	<hr/>



## 5. Finance costs

	Unaudited Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Interest on:		
– Bank borrowings repayable within five years	27,622	21,123
– Other loans	94	76
– Finance lease liabilities	426	128
	<u>28,142</u>	<u>21,327</u>

## 6. Taxation

The Company is exempted from taxation in Bermuda until 2016. The Company's subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from British Virgin Islands income taxes. Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the six months period. Subsidiaries of the Group in Mainland China are subject to Mainland China enterprise income tax ranging from 12% to 33% (2005: 12% to 33%) on their taxable income determined according to Mainland China tax laws. Other overseas taxation has been calculated on the estimated assessable profits for the six months period at the rates prevailing in the respective jurisdictions.

The amount of taxation recognised in the income statement represents:

	Unaudited Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Current taxation		
– Mainland China taxation	<u>32</u>	<u>49</u>
Under provision in prior years		
– Hong Kong profits tax	–	188
– Mainland China taxation	<u>88</u>	<u>–</u>
	<u>88</u>	<u>188</u>
Deferred taxation	120	237
	<u>471</u>	<u>1,664</u>
	<u>591</u>	<u>1,901</u>



## 7. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of approximately HK\$178,501,000 (2005: HK\$41,210,000) by the weighted average number of 1,032,128,459 (2005: 1,054,114,459) ordinary shares in issue during the period.

The diluted earnings per share for the periods ended 30 June 2005 and 2006 are not presented because the Company has no dilutive potential ordinary shares.

## 8. Investment in associates

	<b>Unaudited HK\$'000</b>
At 1 January 2006	<b>118,929</b>
Share of associates' results	<b>(1,522)</b>
	<b>117,407</b>
Exchange difference	<b>(409)</b>
Share of reserves of associates	<b>1,951</b>
Additions	<b>2,693</b>
Dilution gain in an associate	<b>212,842</b>
	<b>334,484</b>
At 30 June 2006	<b>334,484</b>

## 9. Bills and accounts receivable

The Group normally grants to its customers credit periods for sales of goods ranging from 30 days to 120 days. Consideration in respect of sold properties is payable by the purchasers pursuant to the terms of the sale and purchase agreement. Rental in respect of leased properties is payable by the tenants on monthly basis.

Ageing analysis of bills and accounts receivable is as follows:

	<b>Unaudited 30 June 2006 HK\$'000</b>	Audited 31 December 2005 HK\$'000
Within three months	<b>867,251</b>	865,987
Over three months but within six months	<b>181,338</b>	10,837
Over six months but within twelve months	<b>8,556</b>	1,499
Over twelve months	<b>8,450</b>	7,311
	<b>1,065,595</b>	885,634
Less: Provision for impairment of receivables	<b>(6,000)</b>	(6,000)
	<b>1,059,595</b>	879,634



## 10. Share capital

	Unaudited Number of shares '000	HK\$'000
<i>Authorised</i>		
Ordinary shares of HK\$0.10 each	<u>1,800,000</u>	<u>180,000</u>
<i>Issued and fully paid</i>		
Ordinary shares of HK\$0.10 each Beginning and end of period	<u>1,032,129</u>	<u>103,213</u>

## 11. Bills and accounts payable

Ageing analysis of bills and accounts payable is as follows:

	Unaudited 30 June 2006 HK\$'000	Audited 31 December 2005 HK\$'000
Within three months	<u>487,099</u>	<u>341,112</u>

## 12. Related party transactions

The following transactions were carried out with related parties during the period:

	Unaudited Six months ended 30 June 2006 HK\$'000	2005 HK\$'000
Rental income received from associates	165	34
Service income received from an associate	159	–
Acquisition of intangible assets from an associate	100	–
Key management compensation	<u>10,174</u>	<u>13,871</u>

## DIVIDEND

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



## BUSINESS REVIEW AND OUTLOOK

For the first half of the year, the Group's operations got off to a good start with its turnover increased by 6% to approximately HK\$2 billion and profit increased by 340% to HK\$178 million, as compared with the corresponding period last year.

### Steel Business

During the period under review, the global steel market, having experienced highly volatile market price fluctuation in 2005, saw increased demand with rising steel consumption from the EU, Latin America, Middle East, Asia and the PRC that drove steel production output to a higher level. At the same time, steel price had been relatively stable as costs of iron ore, coking coal, electricity and transportation remained substantially high.

Currently, steel production of the PRC accounts for a third of the aggregate global output whereas its imbalanced product mix continued. Such imbalance reflected in its reliance on the import of raw materials and high-end products as well as overproduction of commercial quality steel products. The situation is expected to prolong as the export of products such as steel billet, medium-heavy plates, hot-rolled plates and long steel sections increased with rising demand from the overseas markets.

By constantly responding to market development and coordinating the procurement and sales systems of various products, the Group's trading department strived to maintain the strength of its import business and at the same time, successfully expanded the export of steel products from China. For the first half of the year, the number of export contracts exceeded the total number last year, in particular the rise in its exports to Europe and Middle East.

In respect of its warehousing business, the Group recorded a loss in pellets trading owing to the deadlock in the international iron ore negotiation. As such, the Group's trading performance as a whole was affected though decisive steps had been taken to curb losses.

With a stable steel consumption market expected in the second half of the year, the Group will adhere to its prudent yet progressive operation strategies and continue to strengthen the import of primary materials such as iron ore and high-end products for the PRC market. In addition to the above, improvement of distribution network in the overseas markets and diversification of export products and sales channels will also be made to achieve better performance.



## **BUSINESS REVIEW AND OUTLOOK** *(continued)*

### **Steel Business** *(continued)*

As for our steel manufacturing and processing business, the Group's two steel processing plants in Dongguan continued to be affected by intensive peer competition, imbalance of demand and supply and reduction in gross profit margin. Demand for the steel coil centre was stable for its raw materials are of higher added value, such as cold-rolled thin steel sheets and electro-galvanized coils. On the other hand, the traditional steel pipe plant, the raw materials of which are hot-rolled steel coils and ordinary cold-rolled steel coils and subject to greater influence from market price fluctuation, recorded a drop in gross profit. To reinforce our competitiveness and achieve long-term and stable operating performance, the Group has replaced some of its steel pipe production facilities and expanded the steel coil centre with a new steel coil production line to be installed. Further, resources will also be reallocated for strengthening our high value added steel coil processing business. Together with our commitment in enhancing customers' satisfactory level and major account management, the Group will be competent in providing comprehensive services, including value added processing, distribution, supply chain management and etc.

Meanwhile, the Group's steel sheet processing centre in Yangzhou, PRC has completed its initial market development work and commenced mass production. The Group will also study the feasibility of a strategic alliance with major state-owned steel group in the PRC to achieve synergy effect, thereby expanding the client base in this fast growing region and reinforcing the supply chain management to pave way for long-term development and profit growth in this centre.

### **Property Development and Investment**

Yangzhou Times Square, the Group's property development in the PRC, has continued to enjoy full occupancy. Given a rapidly growing local economy and a maturing mall operation, all reversionary rentals are in the uptrend. The management is making continuous effort to review and adjust the overall tenant mix and marketing strategies, as well as to improve the shopping environment in order to attract tenants of popular brands, and thereby to consolidate its leading position as a trendy shopping mall in Yangzhou. This property is expected to bring stable rental returns and appreciation potential to the Group.

### **Associated Corporation**

China LotSynergy Holdings Limited (Stock code: 8161), an associated corporation of the Group, is principally engaged in the investment, project development and the provision of technologies and equipment and consultancy services in public welfare lottery business and related sectors. The Company has made material progress in welfare lottery related business in China during the period under review.

The Group believes that with the continuing development of welfare lottery industry in China and the progression of the Company's various projects, the lottery related business will bring satisfactory investment returns to the Group in the long run.



## LIQUIDITY AND FINANCIAL RESOURCES

The Group's total equity increased to HK\$1,014,890,000 at 30 June 2006 from HK\$875,238,000 at 31 December 2005. The cash and bank balances of the Group were approximately HK\$187,779,000 (31 December 2005: HK\$205,309,000) and the net current assets were approximately HK\$471,899,000 (31 December 2005: HK\$603,711,000) as at 30 June 2006.

The Group's current ratio, as a ratio of current assets to current liabilities, and gearing ratio, as a ratio of total liabilities to total assets, as at 30 June 2006 were 1.41 and 0.58 respectively (31 December 2005: 1.65 and 0.59 respectively).

As at 30 June 2006, the total bank borrowings of the Group was HK\$741,982,000 (31 December 2005: HK\$772,352,000) and their maturity profile was as follows:

	As at	
	30 June 2006 <i>HK\$ million</i>	31 December 2005 <i>HK\$ million</i>
Within one year	528	498
In the second year	199	121
In the third to fifth year	15	153
	<b>742</b>	<b>772</b>

All the Group's bank borrowings were denominated in Hong Kong Dollar, US Dollar and Renminbi, bearing interest at prevailing market rates. No material exchange risk is expected on the bank borrowings and no financial instruments have been used for hedging purposes during the period.

## CONTINGENT LIABILITIES

There has been no material change in the Group's contingent liabilities since 31 December 2005.

## CAPITAL COMMITMENTS

As at 30 June 2006, the Group had capital commitments contracted but not provided amounted to approximately HK\$5,543,000 (31 December 2005: Nil) in respect of property, plant and equipment and it will be financed by internal fund.

## CHARGE ON ASSETS

There has been no material change in the Group's charge on assets since 31 December 2005.



## STAFF

As at 30 June 2006, the Group employed 691 staff. Staff remuneration packages are structured and reviewed by reference to market terms and individual merits. The Group also provides other staff benefits which include year end double pay, contributory provident fund and medical insurance. Share options and discretionary bonus may also be granted to eligible staff based on individual and Group performance. Training programmes for staff are provided as and when required.

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

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

## DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

On 1 March 2005, Fordwell Investment Limited ("Fordwell"), a wholly-owned subsidiary of the Company, entered into a facility agreement (the "Facility Agreement") with a syndicate of financial institutions whereby Fordwell was granted a 3-year transferable term loan facility of up to US\$39,000,000 (the "Facility"). The Facility Agreement includes an undertaking on procuring that Mr. CHAN Shing, the Chairman and Managing Director of the Company, and Ms. LAU Ting, the spouse of Mr. CHAN Shing and an Executive Director of the Company, shall remain as the combined single largest shareholder of the Company and own (directly or indirectly) in the aggregate 30% or more of the ordinary issued shares of the Company at all times during the term of the Facility Agreement. A breach of such undertaking will constitute an event of default under the Facility, upon the occurrence of which all amounts outstanding and owing under the Facility may become immediately due and payable.





## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2006, the interests and short positions of the Directors and chief executive of the Company (including those interests and short positions which were taken or deemed to have interests and short positions under the provisions of the Securities and Futures Ordinance (the "SFO") 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) as recorded in the register required to be kept by the Company pursuant to Section 352 of 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 Transactions by Directors of Listed Companies, were as follows:

### (1) Interests in Shares

#### (A) The Company

Name of Director	Number of ordinary shares			Total	Approximate percentage interest in the Company's issued share capital
	Personal interests	Family interests	Corporate interests		
CHAN Shing	13,035,472	21,776,072 (Note 1)	438,304,701 (Notes 2&3)	473,116,245 (Note 3)	45.84%
SIT Hoi Tung	1,576,382	-	-	1,576,382	0.15%
LAU Ting	21,776,072	13,035,472 (Note 4)	438,304,701 (Notes 2&3)	473,116,245 (Note 3)	45.84%
TUNG Pui Shan, Virginia	8,461,996	110,000	5,104,000 (Note 5)	13,675,996	1.33%

#### Notes:

- These shares were owned by Ms. LAU Ting, the spouse of Mr. CHAN Shing.
- 226,403,853 shares were held by Hang Sing Overseas Limited ("Hang Sing") which is owned as to 51% by Orient Strength Limited ("Orient Strength"), a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting. 211,900,848 shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting.
- As the interests of each of Mr. CHAN Shing and Ms. LAU Ting are deemed to be the interests of each other, the figures referred to the same shares.
- These shares were owned by Mr. CHAN Shing.
- 5,104,000 shares were owned by Focus Cheer Consultants Limited ("Focus Cheer"), a company which is wholly-owned by Ms. TUNG Pui Shan, Virginia.

**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES***(continued)***(1) Interests in Shares** *(continued)**(B) Associated Corporation – China LotSynergy Holdings Limited (“China LotSynergy”)*

Name of Director	Number of ordinary shares			Total	Approximate percentage interest in the issued share capital of China LotSynergy
	Personal interests	Family interests	Corporate interests		
CHAN Shing	72,951,773	51,288,803 <i>(Note 1)</i>	407,404,308 <i>(Notes 2&amp;3)</i>	531,644,884 <i>(Note 3)</i>	29.99%
SIT Hoi Tung	2,778,819	–	–	2,778,819	0.16%
LAU Ting	51,288,803	72,951,773 <i>(Note 4)</i>	407,404,308 <i>(Notes 2&amp;3)</i>	531,644,884 <i>(Note 3)</i>	29.99%
TUNG Pui Shan, Virginia	2,113,610	5,500	255,200 <i>(Note 5)</i>	2,374,310	0.13%
KWOK Wai Lam	2,200,000	–	–	2,200,000	0.12%
YIN Mark	1,016,900	–	–	1,016,900	0.06%

Notes:

- These shares were owned by Ms. LAU Ting, the spouse of Mr. CHAN Shing.
- 11,320,192 shares were held by Hang Sing which is owned as to 51% by Orient Strength, a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting. 10,595,042 shares were held by Strong Purpose, a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting. 385,489,074 shares were held by the Company.
- As the interests of each of Mr. CHAN Shing and Ms. LAU Ting are deemed to be the interests of each other, the figures referred to the same shares.
- These shares were owned by Mr. CHAN Shing.
- 255,200 shares were owned by Focus Cheer, a company which is wholly-owned by Ms. TUNG Pui Shan, Virginia.

**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES***(continued)***(2) Interests in Share Options of China LotSynergy Holdings Limited**

Name of Director	Date of grant	Exercise period	Number of China LotSynergy shares to be issued upon exercise of the share options	Exercise price per China LotSynergy share HK\$
CHAN Shing	1/9/2005	31/10/2005–30/10/2007	1,000,000	1.96
	8/6/2006	08/06/2007–07/06/2011	600,000	1.22
LAU Ting	1/9/2005	31/10/2005–30/10/2007	1,000,000	1.96
	8/6/2006	08/06/2007–07/06/2011	600,000	1.22
HUANG Shenglan	1/9/2005	31/10/2005–30/10/2007	1,000,000	1.96
	8/6/2006	08/06/2007–07/06/2011	600,000	1.22

Save as otherwise disclosed above, as at 30 June 2006, none of the Directors or chief executive of the Company had, or were deemed under the SFO to have, 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 recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.



## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 30 June 2006, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company:

### Interests in Shares

Name of shareholder	Nature of interest	Number of shares held	Approximate percentage interest in the Company's issued share capital	Note
Hang Sing	Beneficiary	226,403,853	21.94%	1
Orient Strength	Corporate	226,403,853	21.94%	1
Zhong Shan Company Limited	Corporate	226,403,853	21.94%	1
Superior Quality Assets Limited	Corporate	226,403,853	21.94%	1
Strong Purpose	Beneficiary	211,900,848	20.53%	2
Bonaire International Limited	Trustee	79,644,000	7.72%	-

#### Notes:

- 51% of the issued share capital of Hang Sing was owned by Orient Strength, a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting, and 49% of the issued share capital of Hang Sing was owned by Superior Quality Assets Limited, a company which is wholly-owned by Zhong Shan Company Limited. Zhong Shan Company Limited was wholly-owned by the Jiangsu Provincial People's Government of the PRC. These 226,403,853 shares held by Hang Sing formed part of the interests of Mr. CHAN Shing and Ms. LAU Ting herein disclosed respectively.
- These 211,900,848 shares held by Strong Purpose, a company which is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting, formed part of the interests of Mr. CHAN Shing and Ms. LAU Ting herein disclosed respectively.

Save as disclosed above, as at 30 June 2006, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.



## SHARE OPTION SCHEME

No options had been granted, exercised nor cancelled since the adoption of the share option scheme pursuant to the ordinary resolution of the then shareholders of the Company passed on 6 June 2002.

## AUDIT COMMITTEE

The Company has established an Audit Committee which comprises the three Independent Non-Executive Directors of the Company, Mr. CUI Shu Ming, Mr. SONG Yufang and Mr. HUANG Shenglan. The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The unaudited interim financial statements of the Group for the six months ended 30 June 2006 have been reviewed by the Audit Committee.

## CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the six months ended 30 June 2006, except for the following deviations:

- Code provision A2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Chairman and Managing Director of the Company, Mr. CHAN Shing, currently assumes the role of the chairman and also the chief executive officer. Given the nature of the Group's businesses which require considerable market expertise, the Board believed that the vesting of the two roles provides the Group with stable and consistent leadership and allows for more effective planning and implementation of long term business strategies. The Board will continuously review the effectiveness of the structure to balance the power and authority of the Board and the management.
- Code provision A4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election, and code provision A4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.



## CORPORATE GOVERNANCE *(continued)*

The Non-Executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation in accordance with the Bye-laws of the Company (the "Bye-laws"). The Directors have not been required by the Bye-laws to retire by rotation at least once every three years. However, in accordance with Bye-law 85 of the Bye-laws, at each annual general meeting of the Company one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third), other than the Director holding office as Chairman or Managing Director, shall retire from office by rotation. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairman or Managing Director, by rotation at least once every three years in order to comply with Code provisions. The Board considered that the continuity of office of the Chairman provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group.

- Code provision B1.1 stipulates the establishment of a remuneration committee with specific written terms of reference which deal clearly with its authority and duties and a majority of the remuneration committee should be independent non-executive directors. The Company has not set up a remuneration committee pursuant to the said code provision during the period under review. Nevertheless, a committee comprising the Chairman, two Executive Directors and the Head of Personnel Department has been responsible for determining and reviewing the Group's overall remuneration policy and structure for the remuneration of the Directors, but no Director will be involved in deciding his own remuneration.

On 12 September 2006, the Company established a remuneration committee, which comprises an Executive Director and the Deputy General Manager, Mr. SIT Hoi Tung, and two Independent Non-Executive Directors, Messrs. CUI Shu Ming and HUANG Shenglan, with written terms of reference in compliance with the code provision B1.1.

- Code provision E1.2 stipulates that the chairman of the board should attend the annual general meeting. Mr. CHAN Shing, the Chairman of the Board, was unable to attend the Company's annual general meeting held on 30 May 2006 as he was on business trip. Nevertheless, he had arranged for Mr. SIT Hoi Tung, an Executive Director and the Deputy General Manager of the Company, to take the chair of the meeting and answer shareholders' questions.

The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board consider appropriate.



## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its code of conduct for dealings in securities of the Company by the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2006.

On behalf of the Board  
**CHAN Shing**  
Chairman

Hong Kong, 12 September 2006

*As at the date of this report, the Board of Directors of the Company comprises Mr. Chan Shing, Mr. Sit Hoi Tung, Mr. Yang Da Wei, Ms. Lau Ting, Ms. Tung Pui Shan, Virginia, Mr. Kwok Wai Lam and Mr. Yin Mark as Executive Directors, Mr. Cui Shu Ming, Mr. Song Yufang and Mr. Huang Shenglan as Independent Non-Executive Directors and Mr. Sze Tsai Ping, Michael as Non-Executive Director.*